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FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

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FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

WEDNESDAY, FEBRUARY 9, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met at 9 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Robert T. Matsui presiding.

Mr. **Matsui**. We will call the subcommittee to order.

We have Mr. Facciani, Mr. Bartlett, Mr. Detlefs, Mr. Yung-Ping Chen, and Mr. Grubbs.

We want to welcome you here to the subcommittee this morning. We will start with the testimony of Mr. Facciani first. Your written testimony will be entered into the record without objection. If you could limit your testimony to approximately 5 minutes; that would not, of course, include the question and answer period.

Thank you.

STATEMENT OF GERALD D. FACCIANI, CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, AMERICAN SOCIETY OF PENSION ACTUARIES

Mr. **Facciani**. I appreciate the opportunity to testify on behalf of the American Society of Pension Actuaries [ASPA]. ASPA's 2,000 members provide consulting, administrative, and actuarial services to approximately 30 percent of American's 600,000 plus retirement plans.

Our formal written testimony delivered earlier to this committee focuses on ASPA's basic position on the philosophy and financing of social security. Time does not permit me to address cost of living adjustments—one of the two most important structural changes which should be made to the system; however, relevant views on this matter are ably presented in supplementary statements to the Commission's report.

My oral statement will focus objectively and unemotionally on the other important structural change which can and should be made to the system at this time—namely, an increase in the normal retirement age at which benefits would commence.

As indicated by Senator Dole and Congressman Conable, in the year 2035 the elderly population is estimated to account for 21 percent of the overall population as compared to 11 percent today, and the typical 65 year old will have a life expectancy of 17 years, as compared to 14½ years today. The ratio of taxpayers to beneficiaries will drop from the current 3 to 1 ratio to a ratio of 2 to 1 or less, thus significantly contributing to the enormous long-term deficits in the future.

We agree with Congressman Archer that "structural changes are critical to the long-term stability of the system," and we agree with Senator Armstrong that attention should be focused on basic systemic difficulties of the trust funds, namely, "the growing ratio of retirees to taxpaying workers and benefit increases far outstripping the cost of living." We also agree with Senator Armstrong's statement that the "politics of fear—which has surrounded past social security decisionmaking—must end."

Those who state that an increase in the normal retirement age is tantamount to a decrease in benefits are correct—however, the Commission's report is replete with benefit reductions, be they through increased taxes or other backdoor methods. Future benefit cuts are needed to insure the fiscal integrity of the system.

Specifically, ASPA recommends that the normal retirement age at which full social security benefits become payable be increased by 2 months per year starting in 1986 and continuing to the year 2004, at which time the normal retirement age would be 68, and then continue to be adjusted according to changes in longevity. Continuing genetic and health care improvements, already reflected in average life expectancy since 1935 to the present, provide the impetus for this approach. We estimate that the long-term cost savings developed by such an approach will approximate 2–2.5 percent of payroll.

ASPA agrees with all the reasons for extending normal retirement age enunciated in the supplementary statement contained in the report of the National Commission. However, we disagree that any change should be limited to develop only the additional 0.58 percent of taxable payroll indicated as the long term actuarial shortfall. Any additional margin of safety will provide welcome relief to all generations of Americans.

The social security trustees are expected to revise fertility rates downward from 2.1 births to 2 births among women of childbearing age, which would expand the long-term deficit by 16 percent and push it over 2 percent of payroll, as opposed to the 1.8 percent indicated in the Commission report. Unless this structural change is now made to the system, we may in the future have not inter-generational transfer, but rather inter-generational warfare. If future savings are realized, perhaps part of the money could be used to reduce the long-term deficit of the hospital insurance [HI] portion of medicare, which is conservatively estimated to be between 5 percent–6 percent of payroll—fully three times larger than the OASDI deficit.

Going hand in hand with extension of the normal retirement age would be some type of work promotion strategy, as outlined by the American Association of Retired Persons. ASPA has, for many years, promoted the concept of a coherent and cohesive national retirement income policy, and we offer our assistance to this Congress or any Congress interested in assuring personal freedom and the dignity of our older Americans.

Not to address the structural defects of a system on which so many of our elderly rely may be the genesis of tomorrow's emphasis on a form of eugenics which promotes overt population control by whatever means necessary.

I hope every Member of Congress will act in a statesmanlike manner to bring basic systemic change to social security. This Congress must force change, it must map the future and help alter our present course. The American Society of Pension Actuaries would welcome the opportunity to help this Committee and this Congress toward this end.

Thank you.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN SOCIETY OF PENSION ACTUARIES

The American Society of Pension Actuaries (ASPA) is a national professional society whose 2,000 members provide actuarial, consulting and administrative services to approximately 30 percent of the qualified retirement plans in the United States.

The following analysis details the basic position of the American Society of Pension Actuaries with regard to the philosophy and financing of OASDI benefits. Only a passing reference is made to HI benefits, since the report of the National Commission on Social Security Reform did not focus on this component of the Social Security system. Our comments regarding HI benefits are meant to focus attention on that component of Social Security which we feel requires considerably more attention, due to the potential destructive power of this component going out of control.

With regard to the National Commission's report, and our reaction to the basic findings and recommendations contained therein, our basic position is self-explanatory. We have structured our position to highlight the following major areas:

I. Overall philosophy.—The Social Security system should be gradually restored to its original purpose of providing a basic floor of retirement income.

II. Financing.—Funding Social Security retirement benefits from general revenues, interfund borrowing, or borrowing from the Treasury, does not solve the basic problem of Social Security. General revenue financing, interfund borrowing, or borrowing from the Treasury under the present Social Security system simply masks the long-term funding problem.

III. Encouraging later retirement.—Perople should be encouraged to retire later. One way of doing so is through a reduction of the early retirement benefits payable; another approach would be to continue the early retirement benefit either as it is currently constituted or otherwise reduced, but to allow smaller COLA increases until Normal Retirement Age.

IV. Cost of living adjustments (COLA)—the Social Security COLA increase formula should be modified. This can be done in the following way: Establishing a new Consumer Price Index (CPI) for retirees only; and using the lesser of the annual increase in this retiree CPI to some stated maximum annual adjustment or some appropriate percentage of this retiree price index.

V. Double dipping and universal coverage.—double dipping as it now exists should be eliminated through modification of the Social Security benefit formula. Universal coverage of all employees should be mandated.

ASPA's oral testimony will focus on proposed structural changes which could be made to ensure the long-term solvency of the Social Security system. By the Commission's own admission, based upon assumptions utilized developing final numbers in its report, a long-range funding deficiency of .58 percent of payroll still exists. Therefore, to this extent the Commission has failed to develop "potential solutions" appropriate to resolve the long-term funding problem of Social Security, as mandated in Executive Order 12335. Furthermore, basic to this premise is our assertion that for the most part the report of the National Commission contains little in the way of structural change to the system. That is, short-term tax increases and modest long-term benefit reductions fail to address some fundamental structural systemic flaws which have developed over time. The development of such flaws is certainly not in and of itself surprising, since all institutions or systems change with time. It is now the duty of the Congress to bring structural change to the system in order to safeguard not only current beneficiaries, but also future beneficiaries. Our basic position paper reflects the general structural changes which should be made to the system, and our oral testimony will focus on the two most important structural changes which can be made at this time—changes in cost of living and increasing the normal retirement age at which benefits would commence.

ASPA would welcome any questions about the enclosed report, and it should be noted to the Ways and Means Committee that substantive input has already been given by ASPA to the Social Security Administration regarding the Commission's report. The American Society of Pension Actuaries is prepared to assist the Committee in any way it desires.

AMERICAN SOCIETY OF PENSION ACTUARIES

BASIC POSITION ON THE PHILOSOPHY AND FINANCING OF SOCIAL SECURITY

I. Overall philosophy.—The Social Security system should be gradually restored to its original purpose of providing a basif floor of retirement income.

Social Security benefits have quadrupled since 1960.[1] America's resources devoted to OASDI benefits have increased from about 2 percent of GNP in 1950 to about 6 percent of GNP by 1979.[2] Unquestionably, Social Security has retarded capital formation in the United States, since pay-as-you-go financing prevents the development of a real trust fund which promotes capital formation.[3]

Studies indicate that Social Security, as a percentage of net preretirement disposable income, form the following percentages for the years listed below:[4]

[In percent]

Years	Minimum worker	Average worker	Maximum worker
1966	49.0	43.9	44.3
1981	78.2	72.0	62.9

Additionally, a low wage earner will receive more in Social Security benefits in his first year of receipt of benefits that he will have ever paid in lifetime Social Security taxes; an average wage earner will recover his lifetime contributions in the first one and one-half years of receipt of Social Security retirement benefit.[5]

Since its inception one of the principal problems with the Social Security system has been the gradual change in the public's perception of the program. This perception has changed from one which viewed the system as a means to provide a minimum basic income to one that viewed the system as the primary, if not only, means of support after one's productive working lifetime. As one Joint Economic Committee staff study indicates: "Retirement income policies should be considered as an integral part of overall economic policy. The Federal Government should encourage investment-based growth policies, basic to combating inflation, as a foundation for secure pensions in the future. To this end, Congress should emphasize pension policies that provide a balance between sources of retirement income. These sources of income could include post-retirement earned income, Social Security, public pensions, private pensions, and individual savings. This staff study recommends greater emphasis on private pensions, earnings and individual savings to alleviate the burden and dependency on Social Security."[6]

The idea of providing a basic retirement benefit from Social Security is desirable, but the present system provides more than that. The question facing the American people does not revolve around whether or not a basic benefit should be provided, but rather how much of a benefit we are willing and able to pay for.

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[1] "President's Commission on Pension Policy" and "Special Study on Economic Change," vol. 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

[2] "Social Security and Pensions: Programs and Equity and Security," Joint Economic Committee, October 1980 Staff Study, p. 1.

[3] "President's Commission on Pension Policy" and "Special Study on Economic Change," vol. 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

[4] Based upon various assumptions, including savings' rates and work-related expense assumptions derived from a study entitled "Public Pension Plans: Fundamentals of Design, Funding, and Reporting," Howard E. Winklevoss and Dan M. McGill.

[5] "Report to the Congress by the Comptroller General of the United States," "Revising Social Security Benefit Formula Which Favors Short-Term Workers Can Save Billions". Apr. 14, 1981, p. 2.

[6] "Social Security and Pensions: Programs of Equity and Security," Joint Economic Committee, October 1980 Staff Study, p. 31.

II. Financing.—Funding Social Security retirement benefits from general revenues, interfund borrowing, or borrowing from the Treasury, does not solve the basic problem of Social Security. General revenue financing, interfund borrowing or borrowing from the Treasury under the present Social Security system simply masks the long-term funding problem.

An area of considerable debate is whether or not general revenues, interfund borrowing or borrowing from the Treasury should be used as primary or secondary methods to finance Social Security retirement benefits. Some Congressmen imply this method of financing will "solve" the Social Security System's impending financial problems. It is apparent this action would do no more than mask the long-term funding problems by providing an expedient way in which to resolve short-term funding problems

Financing Social Security benefits through general revenues, interfund borrowing, or borrowing from the Treasury would also provide a greater temptation for politicians to increase and hide the cost of those benefits. The concept of raising benefits is "good" and raising taxes is "bad". To the extent politicians and the public allow benefit increases which hide cost through back door methods, they will do so. The rapid rise in Social Security taxes over the last few years has focused public attention on the System's current and future problems and has acted in a positive way as an early warning system.

Note: General revenue financing of Social Security makes sense only if the System is restructured in such a way that general revenue financing funds the welfare portion of Social Security. Various proposals have been made (e.g., AICPA Social Security Report and NFIB Social Security Report) to reduce the payroll tax and directly translate a worker's payroll tax contributions into actuarially earned benefits; under this scenario the cost to provide actuarially unearned benefits (i.e., welfare) would be borne by all citizens through the general budget process rather than through what has evolved into an uneven and unfair system of exccessive payroll taxes. ASPA supports this approach in concept and would be happy to join with other actuarial organizations, the accounting profession, and the Social Security Administration in developing details to such an approach.

III. Encouraging later retirement.—People should be encouraged to retire later. One way of doing so is through a reduction of the early retirement benefits payable; another approach would be to continue the early retirement benefit either as it is currently constituted or otherwise reduced, but to allow smaller COLA increases until Normal Retirement Age.

The average life expectancy for a male age 65 in 1935 was 12.0 years; today it is 14.5 years. The average life expectancy for a female age 65 in 1935 was 13.5 years; today it is 18.5 years.[7]

Additionally, reports indicate that in 1977, 77 percent of men and 79 percent of women took reduced early retirement benefits.[8] Also a Joint Economic Committee Staff Study indicates that in 1978 almost 9 out of 10 persons who received Social Security benefits retired early.[9] These reports lend credence to the concept of encouraging later retirement and providing for an older age at which full Social Security benefits should be received. We recommend adoption of a system whereby the current Normal Retirement Age of 65 is increased two to three months per year, starting around 1986, and that this approach be continued indefinitely, with no specific retirement age objective in the future. Continuing genetic and health care improvements provide the impetus for this approach.

Additionally, a system of incentive such as: (1) removal of the earnings test, and (2) annual benefit increment credits should be adopted. There should be direct obvious advantages readily apparent to continue in active employment.

IV. Cost of living adjustments (COLA).—The Social Security COLA increase formula should be modified. This can be done in the following way: Establishing a new Consumer Price Index (CPI) for retirees only; and using the lesser of the annual increase in this retiree CPI to some stated maximum annual adjustment or some appropriate percentage of this retiree price index.

Cost of living adjustments account for approximately one-third of the cost of Social Security. With approximately 15 percent of the total population currently receiving Social Security benefits increasing to approximately 25 percent by the year 2050; and with the decrease in the number of workers supporting each beneficiary (which by some estimates could drop to a one-to-one worker/beneficiary ratio by the year 2050), the great design error of cost of living adjustments is readily apparent.

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[7] "The Expensive Myth of 'Uncontrollable' Spending," Journal of Contemporary Studies (Winter, 1981), Eric Hemel, White House Office of Policy Development.

[8] "President's Commission on Pension Policy."

[9] "Social Security and Pensions: Programs of Equity and Security," Joint Economic Committee, October 1980 Staff Study, p. 9.

The OASI tax on taxable payroll was 9.1 percent in 1977 and is expected to grow to 18.0 percent by 2050. (Note: these percentages exclude any DI and HI benefits. Currently the total tax on taxable payroll is 13.4 percent (6.70 percent employer and 6.70 percent emplyee taxes.) It is reasonable to assume DI and HI costs will double by the year 2050 and, therefore, the 13.4 percent combined rate should increase to around 26 percent by 2050.) Government actuarial estimates predict OASDHI benefit costs ranging from 20 percent-36 percent of payroll by the year 2030.[10]

High inflation, low economic growth, and unemployment have worsened the financial condition of Social Security. Additionally, if all wages and prices in an economy were fully indexed to the cost of living, this would be a contributing factor to classic, out-of-control inflation. Thus, to the extent prices or costs in any economy are indexed to the cost of living, spiraling inflation is being promoted. The best possible means of protecting the spending power of retirement income is to control inflation. Yet, as the percentage of the population entitled to Social Security increases, the indexing of Social Security benefits will have a greater effect on increasing inflation. It is for this reason the use of the CPI as currently constructed is counter-productive to all American citizens.

Additionally, the use for retirees of the CPI, as presently constituted, is highly questionable. We recommend an appropriate retiree index be determined by an independent source, without a vested interest in the results of the findings.

The question of intergenerational equity also arises. Since the Social Security system is merely a transfer of income from the working generation to the retired generation, it would appear inequitable to increase the income of retirees at a more rapid rate than the rate of increase in workers' incomes. It is inconceivable the Social Security system should endeavor to "fully" protect against inflation the benefits it pays.

As mentioned earlier, Social Security as a percentage of net preretirement disposable income has been increasing dramatically over the years. A recent report prepared for the National Bureau of Economic Research indicates that over age 65 Social Security recipients are "about as well off as the non-elderly on a per capita basis." Although this is a lofty goal to have been realized, we question whether it can and should continue to be realized.

V. Double dipping and universal coverage.—Double dipping as it now exists should be eliminated through modification of the Social Security benefit formula. Universal coverage of all employees should be mandated.

The Social Security formula has always been a compromise between the two principles of individual equity and social adequacy. The American social gospel concludes that in order to provide a certain minimum level of sustenance for very low-paid workers, the Social Security system must provide a benefit which is disproportionately high in relation to the taxes paid by such low wage earning individuals. (An example of this type of worker would be a migrant farm worker who might have met eligibility requirements for benefits but has little if any retirement income from other sources.) However, for other workers who are receiving retirement income from government sponsored plans, the rationale for a disproportionately high Social Security benefit disappears. The most effective short-term solution to the problem of double-dipping would be adoption of some type of "continuation factor" approach as that proposed in the Report to the Congress by the Comptroller General of the United States. Such an approach would automatically reduce the level of benefits received by short-term workers.[11]

The only effective long-term approach is a gradual phase-out of government sponsored retirement programs, as they now exist, with universal coverage of all workers under the Social Security system. Obviously, some level of benefits from the government sector should be provided; however, it is reasonable to assume the level of benefits would be less than is currently provided. The System should cover all Federal and non-Federal governmental units. Ideally the system should not differentiate between prospective and current participants, but rather should include all employees under the same set of rules. This is because as time goes on pressure will increase from the otherwise prospective group, (which will in time grow larger than the current group) to increase benefits, and if this pressure is translated into overly-generous future benefit increases, inflation will be fueled even further. Thus, present government employees, should share in the solution with future generations of government employees.

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[10] "President's Commission on Pension Policy and Special Study on Economic Change," vol. 8, "Social Security and Pensions: Programs of Equity and Security" from studies prepared for the use of the Joint Economic Committee, Congress of the United States.

[11] "Report to the Congress by the Comptroller General of the United States," "Revising Social Security Benefit Formula Which Favors Short-Term Workers Can save Billions," April 14, 1981.

Finally, the ability of local governments and non-profit employers to withdraw from the Social Security system should be eliminated. Social Security is a national problem requiring national participation, not abdication.

VI. Actuarial Assumptions.—Actuarial Assumptions used to develop long-range cost projections should be monitored by competent private-sector economists and actuaries in order to certify validity of Social Security's future cost impact. Additionally, 75 year HI projections should be published with 75 year OASDI projections.

We agree with Haeworth Robertson that in developing cost estimates for the hospital insurance component of Social Security there is "no valid justification for limiting the projection period" to 25 rather than 75 years, the same number of years used to determine the actuarial balance of the OASDI program.[12]

In his pamphlet entitled "What Really Lies Ahead", Geoffrey N. Calvert sets forth a long-term financial prognosis for Social Security, based on a set of actuarial assumptions many feel are more reasonable than any of the current projection bases. Some of his conclusions are:

"As compared with the currently published figures of a prospective 75-year deficiency in the area of 1 percent—2 percent of payroll, a more realistic range would be 4 percent of payroll for OASDI alone, or 9 prcent of payroll when the HI program is included."

"In the first 25 years, there is no real prospect at all of a surplus emerging, on average, once the immediate short-term problems are disposed of. Rather, the outlook is for a combined deficiency, on average, of about 1½ percent of payroll."

"In the second 25 years, the prospective small deficit, as presented in the IIA and IIB projections, is more likely to turn out to be more than twice as great as the (worse) IIB projection, arising from OASDI alone, and almost six times as great when the whole picture is presented. At that stage, the tax rates will will not pay for two-thirds of benefit costs."

"It is in the third 25 years, however, that the system really seems to fall apart. With tax rates not even one-half of projected benefit outflows, and benefit costs soaring to almost one-third of the nation's payroll, it is clear that major changes in the system will have to have taken place."

"The basic benefit formula, the whole concept of indexing benefits, and the type of index used, are prime candidates for consideration. A limitation on the size of benefits governed by the capacity of the active payroll of the nation is obviously called for. The unavoidable role of Congress in periodically adjusting benefit levels in the light of emerging realities may have to be restored".

Mr. Matsui. Thank you, Mr. Facciani.

We will now hear from Mr. Crowder, accompanied by Mr. Bartlett.

Mr. Crowder?

STATEMENT OF A. NORMAN CROWDER III, PRESIDENT-ELECT, AMERICAN ACADEMY OF ACTUARIES, ACCOMPANIED BY DWIGHT K. BARTLETT, MEMBER, COMMITTEE ON SOCIAL INSURANCE

Mr. Crowder. I am Norman Crowder. My colleague is Dwight Bartlett. I am the president-elect of the American Academy of Actuaries. Mr. Bartlett is a member of the Committee on Social Insurance and former Chief Actuary of the Social Security Administration. We represent the Committee on Social Insurance which has prepared the written statement that has been filed.

The American Academy is a professional association of actuaries with broad membership in all areas of practice. We have some 7,000 members covering a diverse series of roles in social and private insurance as well as benefit programs. We believe actuaries are well qualified to comment on the long-term financial implications of social security and changes thereto, because in our work by its nature we deal primarily with evaluating the financial impact of long-term insurance and benefit programs.

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[12] A. Haeworth Robertson, "The Coming Revolution in Social Security," (May 1981), p. 86.

We would like to highlight a few key points from our written statement.

First, we support the basic principles underlying the present social security system. We believe any changes must restore first its financial viability and the public's confidence in it. This is not an easy task.

Second, we have defined 11 criteria against which to evaluate potential changes to the system. These are found in our written statement, and we believe they should be adhered to in shaping any solutions to the current problem.

Next, we would like to make a few comments on the recommendations of the National Commission in light of these criteria and our experience and expertise as actuaries.

Our overall comment would be that the Commission recommendations are a reasonable compromise to solve social security's short-term problems as far as they go. But it covers only two-thirds of the projected long-term deficit. By the Commission's own admission it does not find a long-term solution for the last one-third.

Second, the Commission's recommendations cover only OASDI and do not address medicare and the health insurance program which has a deficit some three times the size of the OASDI program. We urge Congress not to oversell these proposals. This is not the ultimate solution for all times.

We see three fundamental sources of financial instability in the system which are to some degree addressed in the Commission's proposals. Mr Bartlett would like to make some comments on these.

Mr. **Bartlett**. As presently designed, it is inherently unstable for demographic and economic reasons. In the short range instability is caused by the fact that benefits are indexed to prices through the CPI while revenues are a function primarily of wages. It is difficult to predict over short periods what the relationship really will be between prices and wages.

In the long run, the instability is caused by differences in birth rates, death rates, and rates of disability and retirement. If Congress wishes to reduce the problems, it should consider steps to lessen the instability.

The National Commission has recommended one important step in indexing benefits to the lesser of the increase in prices or wages. The conditions and timing of its implementation regrettably weaken the effectiveness.

Another step which would lessen instability would be to move toward a higher retirement age. Life expectancies today at age 71 are equal to those of 65 in 1935.

Another stabilizing step would be to move toward more nearly universal coverage of social security.

It is not clear from a reading of the Commission's report whether, in fact, this recommendation will adequately finance OASDI through 1989 under all reasonable economic and demographic scenarios. We urge Congress to obtain a full actuarial report before it acts.

The Academy recommends additional steps be taken to assure that the actuarial projections of the social security program be as free as possible of political bias. It recommends the requirement of the inclusion in the trustees' annual reports on social security of statement of actuarial opinion concerning the appropriateness of the methodology and assumption used in the projections by the actuaries preparing them. This is essentially the same requirement the Congress mandated for private pensions in ERISA and pension laws for Federal employees in Public Law 95-595. We understand Senator Dodd and Congresswoman Kennelly have introduced bills that would support this principle.

I would reiterate our concern that the National Commission's proposal do only part of the job. The public should not be misled about that. Much work remains.

Thank you, Mr. Chairman.

Mr. MATSUI. Thank you very much, both Mr. Bartlett and Mr. Crowder.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN ACADEMY OF ACTUARIES

The Committee on Social Insurance of the American Academy of Actuaries (the "Academy") appreciates the opportunity to present this statement at these hearings on the financing of the Social Security Old Age, Survivors and Disability Insurance (OASDI) system. The Academy is a professionsl organization of actuaries with a broad membership base which includes actuaries in all areas of specialization. In particular, the membership of our Committee on Social Insurance includes actuaries with broad experience in both social and private insurance and benefit programs. Appendix A provides additional background information on the Academy.

As actuaries, we feel we are particularly well qualified to comment on the long term financial implications of Social Security, and changes thereto, since our work, by its very nature, deals principally with long term financial implications.

A. INTRODUCTION

Social Security is a social insurance program of enormous magnitude. The OASDI portions of the program have become, over a period of nearly half a century, the floor of protection against the insured contingencies for most American workers and their dependents. Most Americans presently retired, for example, receive a large part of their retirement income form Social Security. Similarly, workers who are disabled and their dependents, as well as dependents of deceased workers, receive a substantial portion of their income in the form of Social Security benefits.

This statement addresses only the OASDI portions of the Social Security program. It does not address the Health Insurance (HI) part of the program, since HI is not a subject being considered at this hearing. However, consideration of the issues, problems, and proposals for change for the HI portion should not be long delayed.

B. CRITERIA FOR CHANGES

Changes to the program required to restore its financial viability and the American public's confidence in it should be consistent with the principles inherent in a social insurance program of such magnitude and centrality to our social and economic structure. As Congress considers various proposals, we respectfully suggest that they should be tested against the following 11 principles.

1. The program represents a long-term social contract. While Congress legally has the right to change the program, and for that matter even terminate it without notice if it desires, in principle, changes should not deprive covered persons of benefits they are currently receiving or can expect to receive upon retirement based on past covered wages.

2. The program reflects a balancing of concern for social adequacy on the one hand and individual equity on the other. This balance has been arrived at through

the political process, going back to the program's inception. While actuaries have no special expertise to offer concerning the right balance, we consider it entirely appropriate for a social insurance system to reflect social adequacy considerations. Nevertheless, concern for individual equity cannot be ignored or the program will fail to maintain public support.

3. The program, to the extent possible, should be universal and mandatory in its coverage provisions. Gaps in coverage mean that some workers are deprived, at least in part, of this basic coverage. Elective procedures in a program where the same contribution rates apply to all regardless of individual risk characteristics, allow individuals or groups to make decisions concerning coverage which may seem financially advantageous to them but are adverse to those for whom coverage is mandatory. Furthermore, it may turn out that those decisions were not in the best interests of those individuals affected.

4. Balance should be maintained between the interests and rights of the program's taxpayers and those of beneficiaries, in the present and in the future. Since it is impossible to forecast exactly the future demographic and economic circumstances of the program, it is preferable to err on the side of making more conservative benefit commitments in the future, knowing that if favorable experience is realized, increases in benefits levels can be made. The principles stated previously suggest that the reverse is not the case, i.e., it is difficult to reduce current benefits in an effort to keep the tax burden reasonable.

5. Changes should be made so that the program will be adequately financed with reasonable certainty, both in the short range and in the long range. Public confidence in the program can be maintained only if its financing is managed in a fiscally prudent way. Later in this statement we will talk about the importance of the actuarial projections and how they should be interpreted when deciding on the adequacy of the program's financing.

6. The need to maintain and, if possible, improve public understanding of the program should be recognized. The program is already extraordinarily complicated. Few workers have more than a vague understanding of what benefits they can expect to receive from the program, a fact which vastly increases the difficulty of personal financial planning and maintaining public confidence in the program. There is the need to improve public understanding of the underlying philosophy on which the program is based as well as an understanding of the specific provisions.

7. If benefit reductions are necessary, they should be made in a way which will distribute the burden of such changes as widely as possible. Furthermore, if the changes are major in nature, substantial lead time should be provided before such changes become effective, so that those affected have time to make appropriate changes in their own financial planning.

8. Consideration of benefit reductions of a more selective nature should include research demonstrating that such changes will not inappropriately disadvantage those affected, recognizing not only Social Security itself but other financial security systems covering those affected.

9. Anomalies in the program should be avoided. Small changes in circumstances should not produce large changes in the value of benefits to individuals. One of the regrettable aspects of the 1977 amendments to the Social Security Act was that individuals with slightly different birth dates, but otherwise similar circumstances, were eligible for substantially different benefits.

10. It should be recognized that Social Security, as important and as enormous as it is, is not the only financial security program. There are a wide variety of other financial security programs both in the public and private sectors which should be recognized in deciding what the proper role for Social Security is in providing protection against the insured contingencies.

11. It must be remembered that Social Security is only one part of our social and economic system, and that anything done to or for Social Security affects other elements.

C. PROPOSALS FOR CHANGE

As Social Security is currently structured, there are three fundamental sources of financial instability. The three sources of instability are related to: (1) economic conditions, (2) demographics, and (3) the lack of universal coverage.

Legislation should be enacted to address each of these sources of financial instability. The recommendations of the National Commission on Social Security Reform (the "Commission") do address each of these sources of instability. Assuming that Congress wishes to reduce the financial instability of the present system and avoid future financial difficulties, we offer the following comments about those sources of instability and the pertinent Commission recommendations.

1. Economic conditions

The first source of instability is the sensitivity of the program to economic conditions. After enactment of legislation in 1977, "best estimate" actuarial projections indicated that the OASDI program was expected to generate sufficient revenues to pay benefits until the baby boom generation began to retire in the next century. Unfortunately, since 1977, economic conditions have been much less favorable than those assumed in the earlier projections.

The Academy does not find fault with those actuarial projections. In fact, virtually no actuary or economist was then forecasting "best estimate" economic assumptions as adverse as those that actually occurred since 1977.

Economic forecasting is an uncertain science. Because of that fact, the Commission decision to base short-term financial needs on "pessimistic" assumptions is prudent. That fact also supports the desirability of creating larger trust fund ratios than those now existing. Further, it dictates that serious consideration be given to enactment of structural changes to help avoid future problems, if economic conditions are worse than forecast.

Since 1977, unemployment rates have exceeded those assumed in earlier Trustees Reports. That has created financial strain since fewer workers pay Social Security taxes.

However, of much greater importance is the fact that wages have not kept pace with inflation as measured by the CPI. During the four years ending June 1982, CPI indexed benefits increased 35 percent faster than average wages. If benefits had grown at the same rate as wages, the program would not now be faced with short-term financial problems, despite higher than expected levels of unemployment.

The National Commission has addressed this particular source of instability in its proposal to base COLA increases on the lesser of wage or price increases if the trust fund ratio (fund balance divided by annual fund outgo) is below 20 percent beginning 1988. A "catch up" provision is provided if the ratio subsequently rises above 32 percent. This is an important type of structural recommendation to protect the solvency of the program under conditions of "real wage" losses, and is only one of many possible solutions to the problem.

The Academy offers two observations about the specific recommendation. First, we are not certain what considerations led to the agreement to delay the effective date until 1988. The delay will subject the program to continued uncertainty and possible strain during a period when the trust funds have virtually no margin of protection.

Second, the 20 percent trigger level does not offer much margin for protection. The trust fund ratio did not drop below 20 percent until as late as 1981. The OASDI trust fund ratios were falling at a rate of between 5 percent to 10 percent of annual outlays during much of the past decade. A higher, more prudent trigger level may be warranted. A 30 percent trigger level would have prevented the current financial problem. A number of study groups involving actuaries and economists have recommended that trust fund levels should be built up to at least the 50 percent to 100 percent level.

The Commission recognized that an insufficiency could develop even if the COLA stabilizer were enacted. Thus, they recommended that a "fail safe" provision also be included to serve as an ultimate means to assure that benefits are paid on a timely basis.

2. Demographics

The second source of financial instability is demographic in nature. This primarily affects the long-term solvency of the program. The problems of the baby boom generation and the decline in birth rates are now fairly well recognized. It is expected that there will be relatively fewer people of working age to pay taxes to transfer income to the much larger beneficiary population in the next century. The "best estimate" actuarial projections indicate that while 3.2 workers now support each beneficiary, once the baby boom generation has retired, only 2 workers are expected to support each beneficiary. This will mean that future generations of workers will be required to transfer a larger proportion of their wages to help support the large beneficiary population.

Increases in life expectancy contribute to this problem, since benefits are paid over a longer period of time. Dramatic improvements in life expectancy have already occurred. Actuarial studies show that people age 71 now have the same life expectancy as those age 65 when that age was chosen as the age to commence retirement benefits in 1935. The "best estimate" projections by the Social Security actuaries forecast that age 74 will be the equivalent age by the year 2000.

If enacted, the bipartisan recommendations of the Commission would eliminate approximately two-thirds of the 75-year deficit for the OASDI program. In supplementary statements, the Commission members offered two major alternatives to solve the remaining imbalance for the OASDI program. One was to schedule future increases in payroll taxes; the other was to gradually increase the normal retirement age to 66 by 2015 and to adjust it to increases (or decreases) in life expectancy thereafter.

While either approach may restore long-term balance to the OASDI program, the retirement age indexation should add more stability. If future improvements in life expectancy are not as substantial as those currently forecast, the deficit would be smaller, the retirement age increases would be more modest, and the savings would decrease, and vice-versa.

Other solutions to the long-term financial problems have been proposed by various advisory groups and commissions, such as gradually moving the retirement age to age 68. Some solution to the long-term financial problems should be adopted now.

The Academy would be the first to admit that long-range projections involve uncertainty. However, our profession is primarily involved with matters of long-term financial security. Therefore, we know that proper financial and personal planning is a very long-term process. If it is Congress' judgment that changes in either benefit levels or retirement ages are warranted, we recommend that those changes be adopted as soon as possible to avoid the possiblity of percipitous changes in the future.

There are three important facts that should be considered when making that judgment. First, an increase in life expectancy automatically increases the total value of the benefits as the monthly benefits are paid over a longer period of time. The total value of benefits could be maintained even if there were gradual increase in retirement ages.

Second, actuarial projections indicate that future benefit levels will grow in "real terms" despite the fact that the replacement ratios will stabilize at constant levels for various levels of income. That is, under current legislation, benefits to be paid to future recipients will grow in terms of purchasing power. This happens because the bend points in the formula used to determine benefits are indexed based on wage increases instead of price increases, and wages are expected to increase more rapidly than prices in the future. The Commission reviewed "bend point" proposals that would have permitted continued real growth in benefit levels while gradually reducing the replacement ratios over a temporary period of time.

Third, the judgment should reflect not only the level of future taxes required for OASDI, but for HI as well. The Commission did not address the long-term deficit of the HI program which is approximately three times larger than the OASDI deficit. According to Table 7B of the Commission report, best estimate projections forecast that a combined payroll tax rate of 28 percent would be required for OASDHI once the baby boom generation retires.

3. Lack of universal coverage

The third source of financial stain is the lack of universal coverage. Of particular concern to the Academy is the fact that groups can opt out of the program, which reduces income without a commensurate reduction in benefit outlays, particularly in the short-term.

Many governmental employees and employees of non-profit organizations are not now covered under Social Security. As stated earlier, the Academy supports the principle that Social Security should be universal and mandatory to the extent possible. Accordingly, the Academy is supportive of efforts to bring about universal coverage, or at least comparable protections to all employees, while recognizing that constitutional issues must be resolved with respect to state and local employees.

Alternative approaches are available if Congress wishes to enhance universal coverage. Further withdrawals from Social Security might be prohibited without changing the status of groups that have withdrawn or have never participated. A stronger measure would be to mandate coverage for all groups not presently covered. Either action would improve the universal nature of Social Security coverage and partially alleviate both the short- and the long-term financial problems of the system. However, if coverage is mandated for any groups not now covered, Congress should also consider how such action might affect the financing of existing retirement systems for such groups. In particular, any adverse financial effects of such action must be taken into account in weighing the cost advangages of universal coverage.

We recognize that universal coverage is probably not attainable in the near future. Other steps might be taken to improve the cost picture by eliminating, to the extent possible, the wind-falls which many persons employed in non-covered groups currently receive. Persons receiving mid-range or large salaries in non-covered employment often qualify for disproportionate Social Security benefits because of moonlighting or full-time but short service in covered employment. We support the concept of modifying the Social Security law to minimize inequitable relationships between such individuals' Social Security benefits and contributions.

D. ACTUARIAL PROJECTIONS AND ASSUMPTIONS

Actuarial projections have always been recognized as central to the proper recognition of the costs of the system and its financing. Given the current financial problems confronting the system, appropriate actuarial projections are more important than ever.

The annual report of the Board of Trustees of the various Social Security trust funds contain actuarial projections of the operations of the funds. For the OASDI trust funds these projections are made for a 75-year period into the future. These projections are needed because of the long-range nature of the OASDI programs and because current participants will be affected for at least that length of time. Also, changes which are made in the system do not affect the program in the same way in each year. Policymakers need to know what these effects will be and how they will change over the years.

Since no one knows exactly what future experience will be, estimates are made using assumptions which are based on past experience and current trends. Historically three projections (five in the 1981 and four in the 1982 Board of Trustees Reports) have been made for the OASDI trust funds based on different sets of assumptions. These are classified as optimistic, pessimistic and intermediate, with the intermediate projection assumed to be the most probable estimate as to what the future will hold for these funds. While projections based on the intermediate assumptions are generally appropriate for decisions about the long-range financing of the program, they probably are not appropriate for decisions about the short-range, particularly in periods when the solvency of the trust fund is in question.

There are many areas in which actuarial assumptions are needed in order to produce the projections. These fall into two basic areas: (1) economic and (2) demographic.

The economic assumptions include, among other, annual rates of change in average wages and the Consumer Price Index (CPI), average annual interest rates, average annual rates of unemployment and average annual rates of labor force participation. These fluctuate significantly and variations from the assumptions can affect the projections greatly. This is one reason for showing a range of projections.

The demographic assumptions include fertility, mortality and disability rates. These do not fluctuate as much as the economic assumption but they do change and the trends do not always follow a smooth pattern. The actual experience in these areas is affected by economic and social conditions as well as technological developments especially in the health area.

The actuaries of the Social Security Administration watch the actual experience in each area to see if deviations from their assumptions are occurring. When a trend appears to be taking place, they make changes in their assumptions to recognize this. Congress should not be disturbed by the fact that the actuarial assumptions are changed modestly from year to year. In our view, it is better to change the assumptions incrementally each year rather than freeze the assumptions for a period of years and then make gross changes only occasionally. The fact that the system is not in exact actuarial balance on the basis of the intermediate assumptions does not necessarily require corrective action by Congress. However, it must be recognized that the longer corrective action is delayed, the more severe such action will probably have to be. By its nature, Social Security financing requires constant scrutiny and may need periodic adjustment.

Because policy decisions are based on the projections, it is imperative that the assumptions be as unbiased as possible. Selection of the assumptions should be free of political pressures and should recognize what is actually occurring. We would like to endorse a previous recommendation of the Academy contained in our 1981 testimony (see Appendix B) that the annual reports of the Board of Trustees be required to include a statement of actuarial opinion by the Chief Actuary of the Social Security Administration and the Chief Actuarial Officer of the Health Care Financing Administration on the reasonableness of the assumptions used for the projections. We note that a statement of actuarial opinion has been included in each of the last two annual reports of the Board of Trustees, and feel that future reports should be required to include such an opinion.

We have studied the report of the Commission with interest. We cannot determine from the report whether or not the recommendations made therein will adequately finance the OASDI portion of Social Security. We suggest that Congress be sure that the Commission recommendations do provide adequate financing in both the short- and long-term, so that the current problems do not resurface again after a few years, as they did after the 1977 Social Security amendments.

With respect to the report of the National Commission, we would also like to point out that there is a potential technical problem with the proposal to include 50 percent of OASDI benefits in taxable income for single persons with adjusted gross income of $20,000 or more and for married persons with adjusted gross income of $25,000 or more. The problem is with the $20,000 and $25,000 thresholds, in that people with adjusted gross income just above these amounts will be worse off on a net after tax basis when compared to individuals with adjusted gross income just below these amounts. The actual legislation should address this problem and should be designed to produce logical and consistent results for individuals with adjusted gross income above and below these thresholds.

E. SUMMARY

1. The Academy is particularly well qualified to comment on the long term financial implications of Social Security, and changes thereto.
2. We support the basic principles on which the present Social Security system is based.
3. We feel there are certain criteria to which any changes should adhere, and have provided 11 such criteria.
4. There are three fundamental sources of financial instability of the Social Security system as it is presently structured. These three sources of instability are related to: (1) economic conditions, (2) demographics, and (3) the lack of universal coverage. Legislation should be enacted to address each of these sources of financial instability.
5. The actuarial assumptions used and the actuarial projections made for the Social Security system should be carefully considered and subjected to close scrutiny and periodic review. Selection of the assumptions should be free of political pressures and a statement of actuarial opinion on their reasonableness should be required.

We appreciate being given this opportunity to testify. We hope our testimony will be helpful, and we would welcome the opportunity to be of further assistance as you proceed with your important deliberations.

AMERICAN ACADEMY OF ACTUARIES COMMITTEE ON SOCIAL INSURANCE

Preston C. Bassett, *Chairman*

Dwight K. Bartlett, III
George E. Bell, III
Thomas P. Bleakney
James L. Cowen
Michael H. Gersie
Howard J. Levin
John B. McQuade
Cecil J. Nesbitt
Francis M. Schauer, Jr.
Frederic Seltzer
James R. Swenson
James O. Webb

APPENDIX A

BACKGROUND INFORMATION ON THE AMERICAN ACADEMY OF ACTUARIES

The American Academy of Actuaries is a professional association of actuaries which was formed in 1965 to bring together into one organization all qualified actuaries in the United States and to seek accreditation and greater public recognition for the profession. The Academy includes members of three founding organizations—the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, and the Society of Actuaries.

The Academy serves the entire profession. Its main focus is the social, economic, and public policy environment in which the actuarial profession functions. Its primary activities include liaison with federal and state governments, relations with other professions, the dissemination of public information about the actuarial pro-ession and issues that affect it, and the development of standards of professional onduct and practice.

Over 7,000 actuaries in all areas of specialization belong to the Academy. These members are employed by insurance companies, consulting actuarial firms, government, academic institutions, and a growing number of industries. Actuarial science involves the evaluation of the probabilities and financial impact that uncertain future events—birth, marriage, sickness, accident, fire, liability, retirement, and health--have on insurance and benefit plans.

Membership requirements can be summarized under two broad headings: education and experience. At present, the educational requirements can be satisfied either by passing certain professional examinations sponsored by the Casualty Actuarial Society or the Society of Actuaries, or by becoming an enrolled actuary under the Employee Retirement Income Security Act of 1974 (ERISA).

The experience requirement consists of three years of responsible actuarial work.

APPENDIX B

EXTRACT OF 1981 STATEMENT OF THE AMERICAN ACADEMY OF ACTUARIES ON SOCIAL SECURITY FINANCING

REQUIREMENT FOR STATEMENT OF ACTUARIAL OPINION

The current financing problems of the program illustrate the continuing need for independent, professional actuarial analysis. The Office of the Actuary of the Social Security Administration and the actuaries employed in the Health Care Financing Administration are uniquely qualified to provide such analysis. They must be given the latitude to select a range of appropriate assumptions independent of "official" economic forecasts.

It should be noted that the Employee Retirement Income Security Act of 1974 (ERISA) requires that valuations of private pension plans be certified by qualified actuaries. A similar actuarial certification is required by P.L. 95-595 for pension plans covering federal employees. In each situation, the actuary must certify that the assumptions used are reasonable in the aggregate, representing the best estimates of anticipated experience, and that methodology is proper. The American Academy of Actuaries recommends that the Social Security Act be amended to enable the public to enjoy the same benefit of professional actuarial certification for the Social Security program. This recommendation has also been made by the National Commission on Social Security.

Consistent with this recommendation, the Board of Directors of the American Academy of Actuaries has adopted the following resolution:

"Whereas actuarial projections and cost estimates based on work of the highest professional quality and integrity have been an important force for fiscal prudence in the historical development of social insurance programs; and

"Whereas the growth of these programs and their commitments to future generations of beneficiaries makes it more important than ever that these programs be managed in a fiscally prudent manner;

"Therefore, be it resolved that this organization believes that it is in the best interest of the public that (1) the actuaries who are responsible for the projections and cost estimates be free to use their best professional judgment and expertise independent of pressures for political expediency, and (2) the actuaries ultimately responsible for their work be required to issue an opinion letter accompanying the appropriate annual report stating whether the actuarial assumptions used in the projections contained therein are (a) in the aggregate reasonable taking into account the experience and expectations of the plan and (b) represent their best estimates of anticipated experience under the plan."

Attached to this testimony is a proposed amendment to the Social Security Act. This amendment would require a statement of opinion by the Chief Actuary of the Social Security Administration and the Chief Actuarial Officer of the Health Care Financing Administration that the techniques and methodology used in preparing the actuarial status of the Trust Funds and the cost estimates and the assumptions used with respect to such funds are reasonable and conform with generally acceptable actuarial principles.

PROPOSED AMENDMENT

(a) Section 201(c) of the Social Security Act is amended by adding at the end thereof the following new sentence:

"Such report shall also include a statement by the Chief Actuary of the Social Security Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust funds are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(b) Section 1817(b) of such Act is amended by adding at the end thereof the following new sentence:

"Such report shall also include a statement by the Chief Actuarial Officer of the Health Care Financing Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust Fund are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and the expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(c) Section 1841(b) of such Act is amended by adding at the end thereof the following new sentence:

"Such report shall also include a statement by the Chief Actuarial Officer of the Health Care Financing Administration expressing his or her opinion: (1) that the techniques and methodology used in preparing the actuarial status of the Trust Fund are in accordance with generally accepted actuarial principles; and (2) whether the cost estimates and the assumptions on which they are based are in the aggregate reasonable for the purpose for which they are intended taking into account the experience and the expectations of the program, including a statement of the governmental sources of the assumptions used therefor, where appropriate."

(d) The amendments made by this section shall be effective on January 1, 1982.

STATEMENT OF DALE R. DETLEFS, VICE PRESIDENT, MEIDINGER, INC., COCHAIRMAN, SOCIAL SECURITY COMMITTEE, ASSOCIATION OF PRIVATE PENSION AND WELFARE PLANS

Mr. **Detlefs**. Thank you, Mr. Chairman and members of the committee.

My name is Dale R. Detlefs. I am a vice president of Meidinger, Inc., of Louisville, Ky., one of the Nation's leading employee benefit consulting firms.

I serve as cochairman of the social security committee of the Association of Private Pension and Welfare Plans, and my testimony today is provided on behalf of that association.

While we generally support the recommendations of the National Commission on Social Security Reform, we have some serious concerns.

The action we urge you to take is politically unpopular. We know it will be difficult, but we very strongly believe that you must act decisively if we are to preserve social security for ourselves and our children.

First, we believe that the proposed short-term solution may not be sufficient. If poor economic conditions continue, we fear the system may again run out of money before this decade is over.

We believe that the economic assumptions used by the Commission may be overly optimistic—particularly regarding unemployment levels—and that the proposal does not go far enough. We believe that a workable short-term solution must include two other important points:

One, postpone the annual cost-of-living increase for a year or 18 months rather than just 6 months. This could easily be justified because in the last 4 years, cost-of-living increases have outpaced wage increases by 12 percent to 13 percent—it would take a minimum of 18 months to restore parity.

Two, the calculation of the annual benefit increase should be indexed to the lesser of the increase in wages or prices.

Nobody wants our retired citizens to suffer from inflation, but neither should they enjoy disproportionately large benefits at the expense of the working population. Was it fair, for example, that in 1980 social security beneficiaries got a 14-percent raise—not taxed—while working Americans had an average salary increase of only 9 percent—and paid income taxes on it?

Our second major concern: We believe Congress should act now to schedule a gradual increase in retirement age to 68 under any one of several schedules that have been proposed. The people who will be affected by such a change need time to make retirement plans. We strongly urge you not to postpone making this decision.

Longevity has greatly increased since 65 was established as normal retirement age. People who are 65 years old today can expect to live 3 to 5 years longer than people who were 65 when social security was begun. That will go up even more by the time any retirement-age increase would take effect.

We strongly endorse the recommendations of the Commission that social security be removed from the unified budget and that the Social Security Administration become a separate and independent agency. Social security's problems have largely come about because the system has been overly sensitive to the political process, and that changes would make it easier to take unpopular but necessary steps to maintain the system.

We support three additional points which I have covered in greater detail in my written testimony.

First: While it is reasonable to impose payroll taxes on elective salary reductions under section 401(k) of the Internal Revenue Code, mandatory contributions should not be subject to social security taxes.

Second, the taxation of benefits above a certain income level should be phased in gradually, not abruptly.

Third, the system must be greatly simplified with regard to qualifying for benefits, and the manner in which benefits are calculated.

I appreciate this opportunity to speak on behalf of the Association of Private Pension and Welfare Plans, and will be pleased to answer any questions you may have.

Mr. MATSUI. Thank you, Mr. Detlefs.

[The prepared statement follows:]

STATEMENT OF DALE R. DETLEFS, ASSOCIATION OF PRIVATE PENSION AND WELFARE PLANS

The Association is pleased to have this opportunity to submit a more comprehensive statement to supplement the oral statement presented relative to the proposed Social Security legislation.

With respect to broader coverage, this appears to be essential from the standpoint of generating additional revenue in the short term. Equally important is the fact that the recent rush to terminate coverage by certain categories of employers has exacerbated the problems of the system. Employees who are covered mandatorily ofter regard it as unfair that some persons (e.g., congressmen) are not required to pay the Social Security tax.

Under the proposal, state and local government employees who are not presently covered will not be required to join the system (about 28 percent of the total), and this reflects a timidity on the part of the Commission that may not be affordable.

The constitutional question of whether the Federal government can impose a mandatory tax on a state or local government unit has not been tested in the courts. Denying these employers the opportunity to withdraw in the future may run the same legal risks; therefore, the issue should be faced now. If no legal problem develops, the oft-recommended universal coverage will essentially be achieved by the time the long-range financial problems of the system occur early in the next century.

The extremely slow process of covering federal employees is based solely on political considerations, i.e., avoiding the resistance by the powerful federal employee labor unions. It appears that that resistance is already occurring, anyway, even though no incumbent personnel are affected by the proposal.

Moving more quickly toward mandatory coverage for all employed persons would also be an important step in revenue generation, as well as making most citizens feel that the system is the same for all and fair for all.

The taxation of benefits constitutes a means test for the first time. Persons with moderate to high incomes will only net from Social Security about 75 percent to 90 percent of what would have been paid to them. On the face of it, the new rule would seem to be consistent with the manner that private retirement benefits are taxed—and even more generous because half of the benefits received will greatly exceed what would have been purchased by personal contributions. Nevertheless, the tax-free status of benefits was an attractive feature of the program for higher-paid personnel whose benefit amounts are not commensurate with the level of their contributions because the slope of the benefit formula heavily favors low-paid persons.

Furthermore, this is an indirect form of general revenue financing in that IRS collects the tax for the general treasury, and then it is paid over to the Social Security trust funds. No other income tax payments are earmarked in this way. The $20,000 and $25,000 amounts are not indexed, and over the years this exempt amount will be seriously eroded so that more and more persons will be subject to this tax.

Once the $20,000 or $25,000 income (from all sources) is reached, half the Social Security benefit is taxed. If the income falls $1 short of these amounts, the benefit is not taxed. Obviously, Congress needs to remedy this inequity and provide some gradation.

Changing the cost-of-living increase to January 1 is a desirable provision in the sense that the cost-of-living payments have probably been over-indexed for several years, and it represents a substantial cost savings which is vital to the system at the present time. Also, most Social Security changes occur at the beginning of the calendar year, and it is probably desirable for the cost-of-living change to become effective at that time, too.

Acceleration of the tax rates is necessary for the short-term financial health of the system. The tax credit for 1984 is, once again, a form of general-revenue financing which is not a desirable feature. The fact that it is a one-year only provision minimizes this objection.

The provisions that relate primarily to women are directed toward certain inequities that have existed for years and which have a very minor cost associated with them and, consequently, are desirable.

The reduction of benefits for employees with relatively short coverage by Social Security represents a cost savings and is desirable because it addresses itself to the windfall benefits that certain retired government employees often receive from the Social Security system.

Making the self-employment tax rate for the cash benefits program (OASDI) comparable to the combined employer-employee rate is a desirable feature because, while benefit payments have been identical, taxes paid by the self-employed have been only one and one-half the OASDI rate in recent years as compared to the combined payments made by employers and employees. The fact that the additional tax becomes a deductible item on the individual income tax return is not particularly objectionable because the identical result could be obtained if the self-employed person incorporates.

Crediting the Social Security trust funds for certain military service is a desirable feature because if the Congress wants to provide some additional benefits for veterans because of military service, this shouldn't be an expense to the Social Security system.

Increasing the delayed retirement credit is desirable because it addresses itself to the fact tht the 3 percent delayed retirement increment is nothing close to an actuarial equivalent, and it may also create an incentive for people to retire later, which should constitute some savings to the system. This change involves a small additional long-range cost.

Reallocating the tax rates is a desirable feature in that the disability insurance fund, with its improved experience, is receiving too large a share of the total tax receipts. Permitting interfund borrowing is desirable during the mid-1980's because the financing during this period is very thin, and the flexibility provided by the borrowing provision is probably going to be needed.

Altering the cost-of-living formula if the fund ratio falls below 20 percent is a step in the right direction, but the Commission would have been better off by simply recommending that the annual cost-of-living stabilizer adjustment be based on the lesser of prices or wages. This provision represents one technique, but others could have been designed into the system so as to avoid the need for major legislation on a regular basis.

One of the more serious problems is the long-term deficit of approximately 1.8 percent of payroll, one-third of which, or .58 percent, remains. It would seem that, considering the substantial increase in longevity, the Commission might have taken a more aggressive position relative to later retirement ages. Also, the benefit formula could have been modified in such a way as to preserve the purchase power of future benefit payments rather than increase them as is true of the present system of indexing the bend points in the benefit formula.

Taxing salary reduction amounts appears to be a reasonable technique to increase Social Security revenues, in that it is obvioulsy a form of direct compensation as opposed to non-cash benefit programs. This should only apply to elective contributions, however, and not mandatory ones.

Removing the Social Security Administration from the Department of Health and Human Services and making it an independent agency and, also, separating the operation of the trust fund from the federal budget are desirable provisions in that they may help reduce political considerations in connection with Social Security legislation.

The compromise plan may be as good a proposal as is politically feasible, considering the wide spectrum of interests and social philosophies that were represented by Commission members. Since some two-thirds of the problem was resolved by increased taxes and only one-third by benefit changes, one must wonder whether this represents "compromise." It would have been far better if half of the financial imbalance could have come from each of these approaches.

The Commission did not go far enough in resolving the short-range problems of the system because, in absence of reasonably good economic conditions, there is still a risk of continued imbalance between revenues and expenditures for the system during the mid-1980's. Obviously, the long-range problem needs further attention at this time, as well.

Mr. MATSUI. Mr. Chen?

STATEMENT OF YUNG-PING CHEN, RESEARCH DIRECTOR, McCAHAN FOUNDATION FOR RESEARCH IN ECONOMIC SECURITY, AND PROFESSOR OF ECONOMICS, THE AMERICAN COLLEGE, BRYN MAWR, PA.

Mr. CHEN. Thank you, Mr. Chairman. I represent an organization no larger than myself. I speak for myself.

My testimony will consist of two parts. First, I wish to call your attention to the rate of growth in employee benefits that is assumed in actuarial projections for OASDI and its implications for the long-range deficit—a short article on the subject is submitted for the record.

During the last 30 years, cash wages as a percent of total compensation have been declining at a rate of 0.4 percent compounded annually. In 1950, 95 percent of total compensation was wages, 5 percent benefits. In 1980, 84 percent total compensation was in cash wages, 16 percent in fringe benefits. If this rate continues as assumed in official actuarial estimates, by the year 2056 cash wages will represent 62 percent of total compensation, and, therefore, the remainder, 38 percent, will be in fringe benefits.

To those familiar with statistics on fringe benefits today, the Chamber of Commerce of the United States already reports that 37 percent of wages today is accounted for by employee benefits, but that percentage is actually a percentage of wages, not total compensation. Therefore, the 38 percent of total compensation going for fringe benefits in the year 2056 will turn out to be at least as high as 75 percent of wages, doubling today's ratio. This is a startling ratio.

Because of the assumption that fringes will grow in the next 75 years at the average rate in the last 30 years, the long-range deficit of OASDI is put at 1.8. If one assumes that the rate of future growth in fringe benefits will be the same as the rate of growth in wages, then the long-term deficit will only be 1.2 percent of taxable payroll instead of 1.8. This is a very interesting phenomenon.

What concerns me is that the growth of fringes will affect workers in different industries differently. There are those who are fringe-poor, namely, those workers in employment which offer few fringes, and there are other workers in industries and firms with high fringes. As fringes grow, unless the present low-fringed workers will get a greater share of the total growth in fringes, then they will suffer relative disadvantages vis-a-vis those with high fringes.

The second part of my testimony has to do with the inherent instability that has been remarked on this morning, as well as elsewhere, concerning social security financing. I do believe there is a way to tackle the problem under social security. I propose the Congress authorize the Treasury to issue a what I call Series S bond to be used as a means for adjusting benefit payments to tax receipts. We have the problem of scheduling benefits under OASDI with certainty, while the tax receipts that are coming in to support the payments are subject to a good deal of uncertainty.

As a matter of fact, in recent days, news reports have indicated that the long-range deficit may be 2.1 percent of taxable payroll instead of 1.8. This is long-range. But based on economic experiences of 1982, it would not surprise me that in the revised estimates by the Office of the Actuary the short-range actuarial position of the system will worsen.

In other words, the $169 billion recommended as a solution to the short-range problem by the Reform Commission may become inadequate if in the next few years economic conditions are not recovering as well as they might be.

So I am suggesting that the social security system divide the scheduled benefits, based on intermediate assumptions, in two parts. The first part is cash, and the second part is a bond. The cash part will be based on reasonably pessimistic assumptions. The bonds will represent that portion of the scheduled benefits based on intermediate assumptions that is not paid in cash each year. But if economic and demographic realities turn out to be better than predicted, then those bonds will be redeemable and at that point will be cashed, so that recipients will have at least a minimum guaranteed benefit in cash according to reasonably pessimistic assumptions, but at the same time, they will not be giving up benefits if the future turns out to be better than we estimated it might be.

Speaking as an economist, I often feel that in making predictions, forecasting, we are doing no better than weather people. The demographers do not have a glowing record either. The demographic future may turn out to be better than now predicted by demographers. The economic future may be better; it may be worse. The demographers may be too optimistic; perhaps 1.9 or 2.0 fertility rate will decline.

So it seems to me in order to deal with the inherent instability arising out of the uncertainties of the future which affect the tax receipts under the system, the method that I propose, to be refined to be sure, might deal with this.

Thank you very much for your indulgence.

Mr. MATSUI. Thank you, Mr. Chen.

[The summary statement and attachment follow:]

SUMMARY OF STATEMENT OF YUNG-PING CHEN [1]

The "consensus" package recommended by the national Commission on Social Security Reforms leaves open to Congressional consideration the methods for meeting the shortfall in long-range financing for OASDI amounting to an estimated .58 percent of taxable payroll—one-third of the estimated deficit of 1.8 percent of taxable payroll over the next 75-years.

My testimony will consist of two parts. First, I wish to call your attention to the assumption about the rate of growth in employee benefits in actuarial projections for OASDI and its implications for the long-range deficit under OASDI—a very significant factor that has largely been neglected in discussing the Social Security deficit. Second, I wish to discuss with you my proposal for the creation of a Series S Bond as a means for adjusting benefit payments to tax receipts—a method to make the Social Security system more flexible and responsive to the ever-changing economic and demographic environment.

Both topics require considerable amount of discussion. Within the short time available on this occasion, however, I will only present summaries or conclusions of several of my recent papers, which, with your permission, will be submitted for the record.

I. THE HIDDEN CONNECTION BETWEEN EMPLOYEE BENEFITS AND SOCIAL SECURITY

This section points out (1) the sensitivity of the long-range OASDI deficit to the assumption about the rate of future growth in employee benefits, (2) the distributional effects of employee benefits, and (3) the possibility of subjecting employee benefits to income and/or social security taxation.

Sensitivity of OASDI deficit to growth of employee benefits

Time was when people worked for pay and pay was cash wages. Now they work for total compensation made up of cash wages plus employee benefits. (For short we call them compensation, wages, and benefits. Benefits refer to employer contributions toward public and private pensions, life, health, and disability insurance, unemployment insurance, workers compensation, and the like.) During the last 30 years or so, wages have become an ever decreasing portion of compensation and benefits and increasing portion: In 1950, 95 percent of compensation was wages and 5 percent benefits, now 84 percent is wages and 16 percent benefits. The ratio of wages to compensation was dropping at an average rate of 0.4 percent, compounded annually. The official intermediate projection for OASDI assumes that this trend will continue over the next 75 years: In 2056, wages would be 62 percent of compensation and benefits 38 percent.

To those familiar with the U.S. Chamber of Commerce survey indicating that benefits now amount to some 37 percent of wages, the figure of 38 percent may not appear startling at first glance. But the Chamber's figure is in terms of wages not compensation. When expressed as a ratio to wages, the 38 percent of compensation going to benefits in 2056 will be 61 percent or wages. Moreover, the Chamber's figure includes rest periods. vacations, holidays, sick leave, etc. that amounts to more than two-fifths of today's benefits. When rest periods and other items are added to the computation, benefits in 2056 would be at least as high as 75 percent of wages, doubling today's level.

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[1] Consultant to 1979 Advisory Council on Social Security, and to 1971 and 1981 White House Conferences on Aging, Dr. Yung-Ping Chen is research director, McCahan Foundation and professor of economics, The American College at Bryn Mawr, Pa.

With the assumption that wages as a ratio to compensation will continue to drop in the next 75 years at the average rate for the last 30 years, the estimated long-range OASDI deficit averages 1.8 percent of taxable payroll. Alternatively, if one assumes that the ratio of wages to compensation will remain the same in the future as it is today, then the long-range deficit will be reduced by one-third, to 1.2 percent of taxable payroll. In this case, there is no financing gap under the Reform Commission's package for the Congress to close.

Different growth rates in benefits will have important effects on the short-range and medium-range OASDI financial position as well. Actuarial estimates indicate that if one assumes that wages as a proportion to compensation will continue to decline at the historical rate until 1985 and then, beginning in 1986, will be held constant at 82 percent of compensation. OASDI will accumulate 30 percent more surplus in 1990, 34 percent more surplus in 2000, and 63 percent more surplus in 2020, than currently projected.

Another way to demonstrate the impact of rising benefits on OASDI financing is to examine the extent to which they erode the OASDI tax base by estimating how much the tax rate is increased when the taxable payroll as a proportion to compensation drops, losses of revenue that would have resulted from the relative shrinkage of the taxable payroll would be prevented, and the projected long-range deficit would be reduced as a consequence. Actuarial estimates indicate that if such a taxing procedure takes effect in 1990, 90 percent of the long-range deficit under OASDI would virtually disappear: instead of 1.8 percent as noted earlier, it will only be 0.2 percent.

Distributional effect of benefits

Another issue that demands attention is the distributional effect of benefits. Workers in different industries are paid benefits in different mixes with wages: some have high level of benefits (benefit-rich) and others low level of benefits (benefit-poor). Trade, construction, and services are the three nonagricultural industries in which benefits are traditionally below the national average. During the past 30 years, the number of persons on payrolls of these industries increased substantially, from 17 million in 1950 to almost 43 million in 1980. Moreover, the same period, employment in these industries as a proportion of all private-sector nonagricultural employment also increased: from less than 44 percent in 1950 to more than 57 percent in 1980.

Unless the benefit-poor are increasing their share of total benefits as benefits grow, they will suffer an increasing relative disadvantage as compared with the benefit-rich. As taxable payroll is reduced relatively by the growth in benefits, the OASDI tax rate on the taxable payroll will have to be raised, assuming continued adherence to the principle of using only OASDI taxes to finance the program and assuming no cuts in the types and level of benefits scheduled in the current law. The higher OASDI tax rate will be levied on a smaller part of compensation in the care of the benefit-rich, but on a larger part of compensation of the benefit-poor. This relative disadvantage occurs in spite of the payment formula under OASDI that is weighted in favor of low earners, who are most likely to be benefit-poor, because they would not reap the advantage until they actually receive OASDI payments. Meanwhile, during the years in which they are working, they must pay for some of the protection out of their wages (after taxes), in contrast to the benefit-rich who receive such protection in the form of tax-free benefits.

Possibility of subjecting benefits to taxation

Still another issue is the possibility of subjecting employee benefits to income and/or social security taxation. Indeed, some policy makers have already mentioned this possibility. High income-tax rates seem to have caused the rapid growth of fringe benefits, as employers increasingly offered benefits rather than salary increases that would place their employees in higher tax brackets. Thus began a cycle where fringes grew very rapidly because of tax advantages; but, ironically, fringes have grown too fast and as a result may themselves become subject to taxation. Attention must be paid to the possibility that the continued growth of employee benefits may trigger congressional action to subject certain benefits, or certain levels of some types of benefits, to taxation. In other words, as more and more employee benefits escape taxation, there may come a time when these benefits would be considered objects of taxation.

The National Commission on Social Security Reform has recommended that, in the case of salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code, any salary reduction thereunder shall not be treated as a reduction in the wages subject to social security taxes.

II. OASDI STABILITY AND A SUGGESTED SERIES S. BOND

According to new stories, the OASDI Trustees' Report for 1983, due to be released soon, will indicate that the long-range deficit is now estimated to be 2.10 percent of taxable payroll—one-sixth larger than the 1.80 percent mentioned earlier. As a consequence, the gap in long-range financing is rising to 0.88 percent, instead of the 0.58 percent stated previously. Thus, Congress is expected to find a solution for a larger gap.

Moreover, based on actual data on the economy in 1983, the revised short-range outlook for 1983-1989, soon to be released also, is expected to worsen somewhat as well. Thus, there is a possibility that the Commission's package of 168 billion dollars may become inadequate.

Nothing will further erode public confidence in Social Security with greater damage than the system suffering from another cash-flow crunch before 1990. To forestall this problem, a fail-safe mechanism is essential.

The National Commission indicated that "a fail-safe mechanism is necessary so that benefits could continue to be paid on time despite adverse conditions which occur with little advance notice." The Commission also indicated that "several types of fail-safe mechanisms are possible other than the one currently being used—interfund borrowing." But the Commission also reported that "there was strong disagreement among Commission members as to which type of mechanism should be used."

I propose that Congress consider authorizing OASDI to borrow from the Treasury with the requirement of timely repayment with interest, when unforeseen adverse conditions occur.

Such a standby borrowing authority may offer temptation for Social Security to set unrealistically high benefits or low tax rate levels, however. In order to ensure that there will be no such temptation, I propose that Congress authorize the Treasury to issued a new bond, called Series S. Bond, to be used as a mean to stabilize the system in the following manner.

OASDI beneficiaries will receive their payments in two forms: cash and the Series S. bond. For beneficiaries receiving average level of benefits, for example, the cash portion could be 90 percent of the scheduled benefits, according to intermediate assumptions; the amount paid in cash would be determined in accordance with pessimistic assumptions. The bond portion of the payment—the 10 percent withdrawn from the currently scheduled benefits—represents the additional amount that would be paid if future economic and demographic realities turn out better than predicted under pessimistic assumptions. The bond would be denoted by points equalling the amount that would have been paid in cash, absent the bond plan. For example, one dollar of the scheduled benefits means one point on the bond. The worth of each point on the bond to be cashed depends upon the "dividend" rate per point the Social Security Administration periodically declares.

OASDI beneficiaries may be divided into five quintiles with different division between cash and bond payments, illustratively as follows:

[Percent]

Quintiles	Cash payment	Bond payment
1st (bottom 20 percent)	100	0
2nd	95	5
3rd	90	10
4th	85	15
5th (top 20 percent)	80	20

In the past, increases in OASDI benefit levels have been made when Social Security accumulated more funds than expected (though not all increases have been made for that reason), but those increases were made prospectively rather than retrospectively. That is, when funds in the system became more abundant than projected, payment levels were increased from that time onward. The proposed Social Security bonds will enable payments to be made retroactively after funds are accumulated in the Trust Funds. The bonds will have the important psychological benefit of ensuring a commitment of Social Security that retroactive benefits will be paid if the future is brighter than we now predict.

If the future turns out to be as the pessimist thinks, then I believe the optimist will also see then need for more cutting on benefits. On the other hand, should the future bring forth what the optimist has in mind, I believe the pessimist will agree to less benefit reduction. It is possible to bring the two sides together before the future arrives.

With the proposed bonds, it should be possible to persuade the liberals to agree to more reductions in cash payment from currently scheduled levels when the reductions are replaced by the bonds. At the same time, it should be possible for the conservatives to concede more toward tax increases. If more benefit cuts can be agreed to through issuing the bonds, then there will be less need for tax increases. Therefore both benefit reductions and tax increases can be less drastic.

The suggested Social Security Bond Plan deserves serious consideration. It can bring Social Security into balance over time by withholding benefits when the cash flow is low and repay them later when there are more funds than needed for payments. The triggering mechanism will be an agreed-upon level of the trust fund ratio. (The trust fund ratio is the ratio of the balance in the OASDI Trust Funds on a particular date, usually at the beginning of a calendar year, to the outgo in the next 12 months).

In the face of uncertain tax receipts resulting from unpredictable changes in economic and demographic developments, the system runs the risk of inability to pay promised benefits which had been scheduled with certainty. The proposed bond would provide a strong measure of flexibility and stability. Together with the fail-safe mechanism, the bond plan would serve to enhance public confidence in Social Security.

SOCIAL SECURITY
ACCOUNT NUMBER

How Employee Benefits Affect Social Security

Yung-Ping Chen

Rising employee benefits have an enormous impact on Social Security revenue, since these fringes reduce the tax base that finances Social Security. Adding to the problem is the fact that benefits are not distributed evenly throughout various industries; thus workers with low fringes suffer disadvantages relative to those with high fringes.

During the past thirty years, employee benefits (or fringe benefits, or simply fringes) have become an ever increasing portion of total compensation, and therefore cash pay has become a declining portion.[1] Whereas in 1950 5 percent of total compensation was fringe benefits and 95 percent wages, in 1980 almost 16 percent of total compensation was fringes and 84 percent wages. Wages as a ratio to total compensation have declined at an average rate of 0.4 percent a year. This rate of decline has been incorporated in actuarial projections for Social Security (OASDI) for the next seventy-five years. Thus, the ratio of fringes to total compensation will rise from about 16 percent in 1980 to almost 38 percent in the year 2056, and conversely, the ratio of wages to total compensation will decline from 84 percent in 1980 to 62 percent in 2056 (see Exhibit 1). To those familiar with a U.S. Chamber of Commerce survey indicating that benefits now amount to some 37 percent of wages, the figure of 38 percent for fringes in the year 2056 may not appear startling at first glance. But the Chamber's figure is in terms of wages, *not* compensation. When expressed as a ratio to wages, the 38 percent of compensation going to benefits in 2056 will be 61 percent of wages. Moreover, the Chamber's figure includes rest periods, vacation, holidays, sick leave, and so on, that amount to more than two-fifths of today's benefits. When rest periods and other items are added to the computation, benefits in 2056 would be at least as high as 75 percent of wages, doubling today's level.

The effect of rising fringes on cash payroll (wages) is a very important matter because taxable payroll is the tax base that finances Social Security, and fringes reduce this base. According to the intermediate set of assumptions in the *1982 Trustees Report*, the long-range deficit of OASDI for 1982-2056 is estimated at 1.82 percent of taxable payroll. The cost of Social Security is often expressed as a percentage of taxable payroll. The percentage of taxable payroll that is required for paying OASDI benefits will rise when taxable payroll relative to total compensation declines, as implied by the assumed rise in fringes. Expressing the cost of Social Security as a percentage of taxable payroll is useful because the trustees of the Social Security program use the percentage of taxable payroll figure in reporting to Congress (and thus to the nation) on the financial status of the system. Congress, in turn, uses the percentage of taxable payroll as a yardstick in considering programmatic changes. Ultimately, therefore, the estimated percentage of taxable payroll determines how high Social Security (FICA) tax rates need to be in order for the program to be self-supporting.

Sensitivity to Future Growth

How sensitive is the long-range OASDI deficit to the assumption about the rate of future growth in fringes? As indicated, the deficit for the period 1982-2056 is estimated to be 1.82 percent of taxable payroll. That estimate assumed that the ratio of cash payroll to total compensation would continue to decline at an annual compound rate of 0.4 percent over the next seventy-five years. If one assumes that the rate of increase in fringe benefits equals the rate of increase in wages for the next seventy-five years, then the long-range OASDI deficit will be reduced by one-third, to 1.20 percent of taxable payroll.

The deficit of 1.82 percent of taxable payroll means that OASDI expenditures will not be met by the revenues collected under the program—unless the FICA tax rate is increased each year by 1.82 percent of that year's taxable payroll (0.91 percent each on employee and employer), or if OASDI benefits are reduced to that extent, or if there is a combination of the two. The difference between 1.82 percent and 1.20 percent is

Exhibit 1

Wages and Salaries (Cash Payroll) and Noncash Compensation (Fringe Benefits) Relative to Total Compensation, 1950-1980 and as Projected by the Social Security Actuaries, 1990-2055

Year	Cash Payroll as Percentage of Total Compensation	Fringe Benefits as Percentage of Total Compensation	Total Compensation
Actual			
1950	95.0%	5.0%	100.0%
1960	92.2	7.8	100.0
1970	89.7	10.3	100.0
1980	84.2	15.8	100.0
Official Projection			
1990	80.6%	19.4%	100.0%
2000	77.5	22.5	100.0
2020	71.5	28.5	100.0
2035	67.4	32.6	100.0
2055	62.2	37.8	100.0

Sources: Actual figures are calculated from data from the Bureau of Economic Analysis, U.S. Department of Commerce. Projected figures were furnished by the Office of the Actuary, Social Security Administration.

Exhibit 2

Effects on Actuarial Position of OASDI (Surplus or Deficit as a Percentage of Taxable Payroll) of Different Assumptions about the Ratio of Cash Pay to Total Compensation: Selected Years, 1990-2050

Year	Surplus (+) or deficit (−) as a percentage of taxable payroll			Change in surplus or deficit due to "equal" growth rate assumption"
	"Faster growth rate assumption"[1]	"Equal growth rate assumption"[2]	Improvement due to "equal growth rate assumption"	
1990	+0.76	+1.00	+0.24	32% greater surplus
2000	+1.37	+1.83	+0.46	34% greater surplus
2010	+0.87	+1.42	+0.55	63% greater surplus
2020	−2.04	−1.38	+0.66	32% less deficit
2030	−4.43	−3.64	+0.79	18% less deficit
2040	−4.40	−3.54	+0.86	20% less deficit ·
2050	−4.32	−3.43	+0.89	21% less deficit

[1] Based on Alternative II-B assumptions, 1982 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (The 1982 Trustee Report)*.

[2] Assuming cash pay were held constant at 82.3 percent of total compensation beginning in 1986. (The ratio was 84.2 percent in 1980.)

Source: An Unpublished Memorandum dated August 3, 1982, National Commission on Social Security Reform. Calculations provided by the Office of the Actuary, Social Security Administration.

significant because these figures imply quite different dollar amounts of deficits to be met. The taxable payroll in 1982 is estimated at approximately $1,360 billion; 1.82 percent of that amount is about $25 billion. By comparison, 1.20 percent of that amount is $16 billion, or $9 billion less.

Differing growth rates in fringes will have important effects on the short-range and medium-range OASDI deficits as well. A decline in the proportion of total compensation going to fringes (and, hence, a rise in cash payroll as a proportion to total compensation) will have the effect of reducing deficits in the immediate future for at least two reasons: (1) there is a time lag between the time when workers pay higher FICA taxes based on greater cash wages and the time when they receive OASDI benefits that will be based on those greater wages, and (2) although OASDI benefits paid to those coming on the rolls will be increased somewhat because of the earnings indexing factor (that is, based on the average annual covered wages which are now higher as a result of greater cash wages), increases in benefit payments due to this factor are much smaller in comparison to increases in FICA taxes based on higher wages now prevailing.

Actuarial estimates show the differences in the surpluses or deficits in the OASDI trust funds, arising from two alternative assumptions about the rate at which cash pay declines as a ratio to total compensation: (1) assuming an annual compound rate of decline at 0.4 percent, and (2) assuming cash pay were held constant at 82.3 percent of total compensation beginning in 1986. In contrast to the former assumption, under the latter assumption the OASDI trust funds would accumulate more than 30 percent more surplus in 1990, 34 percent more surplus in 2000, and 63 percent more surplus in 2020 (see Exhibit 2).

Erosion of FICA Base

The growth rate in fringes as assumed in the official estimate will greatly erode the FICA tax base. A way to demonstrate the extent of erosion is to estimate how much the FICA tax rate for OASDI needs to be increased in order to raise the same revenue.

An interesting paper illustrated the importance of the eroded FICA tax base by describing a means of adjusting the OASDI tax rate to offset the erosion of the tax base (see Exhibit 3). When the taxable payroll as a proportion to total compensation declines, the OASDI tax rate would increase: the tax rate is thus "indexed" to the increase in fringes. This indexing scheme "compensates" the OASDI for the erosion of the taxable payroll base without increasing the tax burden relative to total compensation. In any given year, OASDI tax receipts would be the same proportion of total compensation as in 1990.

As shown in Exhibit 3, while the combined FICA tax rate for OASDI in 1990 is scheduled to be 12.40 percent of taxable payroll, that rate increases by 4 percent every decade, eventually leading to an increase of more than 32 percent by the year 2060. The increase in the tax rate is required just to compensate for the loss in revenue. This is because of the relative shrinkage of taxable payroll resulting from the relative increase in the proportion of total compensation

Exhibit 3

OASDI Tax Rates under an Indexing Procedure

Year	Tax Rates in Percentage of Payroll[1]	
	Employee	Employer & Employee Combined
1990	6.20	12.40
2000	6.45	12.90
2010	6.72	13.44
2020	6.99	13.98
2030	7.28	14.56
2040	7.58	15.16
2050	7.89	15.78
2060	8.21	16.42

[1] Under present law OASDI tax rates for 1990 and thereafter are 6.20 percent for employees and 12.40 percent for employer and employee combined.

Source: Taken from Memorandum No. 50, dated September 7, 1982, National Commission on Social Security Reform.

Exhibit 4

OASDI Actuarial Position (Surplus or Deficit as a Percentage of Taxable Payroll): Existing Law vs. an Indexing Procedure

Period	Surplus (+) or deficit (–) as a percentage of taxable payroll			Change in surplus or deficit due to the indexing procedure
	Existing Law[1]	An Indexing[2]	Improvement due to the indexing procedure	
25-year Average				
1982-2006	+0.64	+0.93	+ .29	45% greater surplus
2007-2031	1.68	0.14	+1.54	92% less deficit
2032-2056	4.41	1.38	+3.03	69% less deficit
75-year Average				
1982-2056	1.82	0.20	+1.62	89% less deficit

[1] Alternative II-B assumptions. *The 1982 Trustees Report.*

[2] Memorandum No. 50, National Commission on Social Security Reform. Data provided by the Office of the Actuary, Social Security Administration.

going to employee benefits.

Under the hypothetical indexing method, losses of revenue that would have resulted from the shrinkage of the taxable payroll would be prevented. As a result, the projected long-range deficit would be reduced.

As shown in Exhibit 4, during the first twenty-five years the surplus would be increased by 45 percent, during the second twenty-five years there would be 92 percent less deficit, and during the third twenty-five year period there would be 31 percent less deficit. For the entire seventy-five year period, 89 percent of the deficit would be removed.

No attempt is made here to analyze the arguments for and against such an indexing procedure. The important point is to demonstrate the powerful influence of growing fringes in reducing the FICA tax base.

Trends of Employee Benefits

What are employee benefits and their trends during the last three decades? Using data from U.S. Department of Commerce, Exhibit 5 displays all types of employee benefits for 1950-1979, divided into public fringes and private fringes. Two trends in the development of employee benefits are: first, during the last three decades a decreasing proportion was attributable to public fringes and a growing proportion was attributable to private fringes, and second, there was a movement toward relatively more old-age protection and less current protection (see Exhibits 6 and 7).

Employee benefits have grown enormously because of a number of factors. They serve many useful functions for employers, workers, and unions. The fact that fringes are not taxable income is a powerful incentive for preferring them to cash pay, especially with inflation creating bracket creep. But how long will workers prefer more fringes to higher wages? Fringes reduce the worker's cash flow, and some workers have neither the need nor opportunity to use some of the fringes they are "paid." Although workers may value fringes for the benefit they offer, there is probably a point at which people become reluctant to trade cash income for fringes they may never have to use. Even when some fringes are expected to yield deferred income, as in the case of greater old-age protection, there may well be a limit to the trade-off of current consumption for future consumption. The desire to raise, or simply to maintain, one's current standard of living would be a strong counter to past trends in growth of

Exhibit 5

Percentage Distribution and Amount of Fringe Benefits by Type, 1950-1979 (Amounts in millions of dollars)

Type of fringe benefits	1950	1960	1970	1979
Public fringes				
OASDI (Social Security cash benefits)	16.7% ($1,308)	24.5% ($5,632)	25.6% ($16,182)	22.3% ($50,161)
HI (Medicare hospital insurance: Social Security noncash benefits)	[1] (0)	[1] (0)	3.7% (2,342)	4.7% (10,487)
State and local employees' retirement	6.5% (510)	7.7% (1,775)	8.1% (5,091)	7.7% (17,425)
Federal civilian employees' retirement	4.0% (316)	3.6% (838)	3.5% (2,215)	3.0% (6,785)
Railroad retirement	3.6% (282)	1.3% (297)	0.8% (517)	0.7% (1,671)
Workers' compensation (federal, state, and local goverments)	2.4% (188)	1.8% (413)	1.4% (872)	1.8% (3,949)
Unemployment insurance (state, federal, and railroad)	18.8% (1,473)	12.2% (2,808)	5.5% (3,475)	7.1% (15,906)
State cash sickness compensation	[2] (7)	* (7)	* (28)	* (43)
Veterans' life insurance	1.0% (80)	* (10)	* (11)	* (5)
Total public fringes	53.3% (4,164)	51.2% (11,780)	48.6% (30,733)	47.3% (106,432)
Private fringes				
Private pension and profit sharing	21.9% (1,713)	21.2% (4,866)	20.6% (13,050)	24.4% (54,899)
Private group health insurance	9.5% (745)	14.7% (3,374)	19.1% (12,099)	18.5% (41,574)
Private group life insurance	3.6% (285)	4.7% (1,080)	4.6% (2,891)	2.7% (6,009)
Private insurance (for workers) compensation	10.1% (791)	6.6% (1,529)	6.0% (3,786)	6.2% (13,943)
Private supplemental unemployment insurance	[1] (0)	0.5% (120)	0.2% (111)	0.3% (590)
Other	1.5% (120)	1.1% (251)	0.9% (570)	0.7% (1,581)
Total private fringes	46.7% (3,654)	48.8% (11,220)	51.4% (32,507)	52.7% (118,596)
Total fringe benefits[3]	100.0% (7,818)	100.0% (23,000)	100.0% (63,240)	100.0% (225,026)

[1] Program not in effect.

[2] The asterisk denotes less than .05 percent.

[3] Components may not add to 100% due to rounding.

Source: Computed from data from the Bureau of Economic Analysis, U.S. Department of Commerce.

fringes. If fringes continue to rise as a proportion of total compensation, their growth may trigger congressional action to subject some of the fringes, or certain levels of some types of fringes, to taxation. In other words, as more employee benefits escape taxation, there may come a time when these benefits would be considered objects of taxation. This discussion suggests that there is not an a priori case for the proposition that fringes will continue to grow faster than wages, particularly at rates observed over the last thirty years.

Distributional Effects of Benefits

Of course, no one can foretell at what rate fringes will grow in the future. An issue that merits attention concerns the distributional effects of fringe benefits, especially if they continue to grow. The incidence of fringes is uneven among workers in different industries: some are "fringe-rich" and others "fringe-poor." As employee benefits continue to grow, increasing attention must be paid to the distributional effects of fringes on workers in industries that have high or low fringes.

There are substantial variations in the level of employee benefits among industries. For example, according to a 1980 survey of 983 companies conducted by the U.S. Chamber of Commerce, the "high-fringed" industries include petroleum (the highest), primary metal, chemicals and allied products, public utilities, banks, finance companies, and trust companies. Among the "low-fringed" industries were textile products and apparel, wholesale and retail trade, and hospitals (the lowest).

Estimates by the Chamber for the economy as a whole, based in part on Department of Commerce data, show substantial industry-by-industry variations in levels of employee benefits. The division of industries in the Department of Commerce data is different from that in the Chamber's survey, but the conclusion is essentially the same: some industries are traditionally high-fringed and others low fringed. In 1980 utilities and communications, mining, finance (including insurance and real estate), transportation, and manufacturing were industries that paid employee benefits higher than the national average, whereas trade (including wholesale and retail), construction, and services were industries with lower-than-national-average levels of employee benefits.

Since trade, construction, and services are the three nonagricultural industries in which employee benefits payments as a percentage of payroll (or of total compensation) are below the national average, it is necessary to determine the number of persons involved. In 1980 the annual average number of workers employed in these industries numbered almost 43 million, constituting more than 57 percent of employment in all nonagricultural establishments in the private sector (see Exhibit 8).

During the last three decades the number of persons on payrolls of these three industries increased substantially,

Exhibit 6

Composition of Fringe Benefits: Public Fringes vs. Private Fringes, 1950-1979

Type of fringe benefits	1950	1960	1970	1979
Public fringes				
OASDI	16.7%	24.5%	29.3%	27.0%
State and local government employees retirement, Federal civilian employees retirement, and railroad retirement	14.1%	12.6%	12.4%	11.4%
Workers compensation and unemployment insurance	21.2%	14.0%	6.9%	8.9%
Total public fringes[1]	53.3%	51.2%	48.6%	47.3%
Private fringes				
Private pension and profit-sharing, private group health insurance, and private group life insurance	35.0%	40.6%	44.3%	45.6%
Private workers compensation, private supplemental unemployment insurance	10.1%	7.1%	6.2%	6.5%
Total private fringes[2]	46.7%	48.8%	51.4%	52.7%
Total fringe benefits[3]	100.0%	100.0%	100.0%	100.0%

[1] Includes state cash sickness pay and veterans life insurance, both of which amounted to less than 0.05 percent each in all 4 years.

[2] Includes "others" which amount to minor percentages as shown in Exhibit 2.

[3] Components may not add to 100% due to rounding.

Source: Exhibit 2.

Exhibit 7

Composition of Fringe Benefits: Old-age Protection vs. Current Protection, 1950-1979

Type of protection	1950	1960	1970	1979
Old-age protection				
OASDI (80% of OADSI)[1]	13.4%	19.6%	20.5%	17.8%
HI (Medicare hospital insurance)	0	0	3.7%	4.7%
State and local government employees retirement, Federal civilian employees retirement, and railroad retirement	14.1%	12.6%	12.4%	11.4%
Private pension and profit sharing	21.9%	21.2%	20.6%	24.4%
Total old-age protection	49.5%	53.4%	57.2%	58.4%
Current protection				
OASDI (20% of OASDI)[1]	3.3%	4.9%	5.1%	4.5%
Private group health, and private group life insurance	13.1%	19.4%	23.7%	21.2%
Workers compensation and unemployment insurance (under public fringes)	21.2%	14.0%	6.9%	8.9%
Workers compensation and unemployment insurance (under private fringes)	10.1%	7.1%	6.2%	6.5%
Total current protection[2]	50.5%	46.6%	42.8%	41.6%
Total protection[3]	100.0%	100.0%	100.0%	100.0%

[1] As explained in Chan (1981).

[2] Includes state cash sickness compensation, veterans life insurance, and "other" which amounted to minor percentages as shown in Exhibit 2.

[3] Components may not add to 100% due to rounding.

Source: Exhibit 2.

from 17.1 million in 1950 to 21.7 million in 1960, 30.2 million in 1970, and 42.8 million in 1980. Moreover, in the same period, employment in these industries as a proportion of all private-sector nonagricultural employment also increased: to 43.7 percent in 1950, 47.4 percent in 1960, 51.8 percent in 1970, and 57.4 percent in 1980.

Because the traditionally low-fringed industries have increased their employment, and because such employment has represented a rising percentage of total employment in private nonagricultural establishments during the last thirty years, the distributional effects of fringe benefits require attention.

Unless the fringe-poor are increasing their share of total fringes as fringes grow, they will suffer an increasing relative disadvantage compared to the fringe-rich. As taxable payroll is reduced relatively by the growth in fringes, the FICA tax rate on the taxable payroll will have to be raised, assuming continued adherence to the self-financing principle of using only FICA taxes as a source of revenue (other than interest earnings of the trust funds) and assuming there are no reductions in the types and level of benefits scheduled in the current law. The higher FICA tax rate will be levied on a *smaller* part of total compensation for the fringe-rich but on a *larger* part of total compensation for the fringe-poor.

This relative disadvantage occurs in spite of the OASDI benefit formula that is weighted in favor of low earners, who are most likely fringe-poor. Even though the weighted-benefit formula yields proportionately more OASDI payments to low earners in terms of their return on the FICA taxes paid, these low earners would not earn the advantage until they actually receive the payments. During the years they are working, meanwhile, they must pay for some of the protection out of their cash wages, in contrast to the fringe-rich who receive such protection in the form of tax-free employee benefits.

Implications for Future

In conclusion, this paper has indicated the importance of the assumption about the growth rate of fringe benefits to the projected OASDI deficit as a percentage of taxable payroll. Different growth paths in fringes can mean significantly different actuarial positions for OASDI, not only for the long-range but for short- and medium-range as well.

In addition, it calls attention to the distributional effects of employee benefits on the fringe-rich vs. the fringe-poor. Workers with low fringes suffer disadvantages compared to those with high fringes. The disadvantages will be accentuated as fringes grow—unless the fringe-poor are increasing their share in the total of employee benefits.

Another issue concerns the possibility of subjecting employee benefits to taxation. Indeed, some policy makers have already mentioned this possibility. High income-tax rates seem to have been one cause of the rapid growth of fringe benefits, as employers increasingly offered benefits rather than salary increases that would place their employees in higher tax brackets. Thus began the cycle where fringes grew very rapidly because of tax advantages; but ironically fringes, having grown too fast, may themselves become subject to taxation. Attention must be paid to the possibility that the continued growth of employee benefits may trigger congressional action to subject certain benefits, or certain levels of some types of benefits, to taxation. As more and more employee benefits escape taxation, there may come a time when these benefits would be considered objects of taxation. ■

Exhibit 8

Number of Workers in Traditionally Low-fringe Industries and the Proportion of Such Workers in the Total Private-Sector Nonagricultural Employment: Annual Averages for Selected Years 1950-1980

	1950	1960	1970	1980
	(Number in Thousands)			
Trade (Wholesale and Retail)	9,386	11,391	15,040	20,573
Construction	2,364	2,926	3,588	4,469
Services	5,357	7,378	11,548	17,740
	17,107	21,695	30,176	42,782
	Proportion of Workers in Low-Fringe Industries in Total Private-Sector Employment (in percentage)			
Trade (Wholesale and Retail)	24.0%	24.9%	25.8%	27.6%
Construction	6.0%	6.4%	6.2%	6.0%
Services	13.7%	16.1%	19.8%	23.8%
	43.7%	47.4%	51.8%	57.4%

Source: Calculated from data in Table C-1 in *Employment Training Report of the President* (Washington: U.S. Government Printing Office, 1981), p. 211.

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1 This paper summarizes (with excerpts and additional material) two articles on this subject: "The Growth of Fringe Benefits: Implications for Social Security," *Monthly Labor Review*, November 1981, pp. 3-10, and "Employee Benefits and Social Security," *Economic Inquiry* (Supplement on Contemporary Issues), forthcoming.

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Mr. MATSUI. We will now call Mr. Grubbs to testify.

STATEMENT OF DONALD S. GRUBBS, JR., WASHINGTON, D.C.

Mr. GRUBBS. Thank you.

My name is Don Grubbs. My views are my own and do not represent anyone else.

I support the bipartisan solution, not because I think it is the best possible solution, but because I think no better solution stands a chance of enactment.

Therefore, my testimony will be limited to four items not covered in the bipartisan solution which Congress still needs to resolve. These four areas are first, a fail-safe mechanism; second, remainder of the long-term deficit; third, supplemental pensions for Federal Government employees; and fourth, motivation of private pension plan laws to reflect changes in social securty.

The bipartisan solution is based upon the estimate that the short-term deficit in 1983–89 will be $150 to $200 billion and that the long-term deficit will be 1.8 percent of payroll.

The long-term estimate is almost certain to be wrong.

There is also a good chance the short-term estimate is wrong. I do not assert that these estimates are high or low or that I have any better estimates. But I do assert that the items projected are subject to such great uncertainty that it would be a chance occurrence if actual experiences were to follow the projections, particularly in the long run.

The National Commission has adopted the best estimates it can for planning purposes.

Such estimates are necessary, and those adopted are reasonable. But who was accurately estimating the 1983 deficits only 5 years ago? If we have learned anything from history, it is that economic projections are unreliable.

This unpredictability presents a dilemma. Almost as important as the actual financial dilemma of social security, is the lack of public confidence. Young people don't believe they will ever receive a social security benefit. The elderly are afraid their payments will stop. The bipartisan solution is a responsible step to solve the estimated deficit but, by itself, it fails to provide the necessary assurance that benefits will be paid.

Even if the bipartisan solution is enacted, an unexpected further increase in unemployment next year, for example, could produce headlines proclaiming that the system is going "bankrupt," again destroying confidence in the system.

Therefore, the National Commission recommended that some type of automatic fail-safe mechanism also be adopted, although it did not specify what that fail-safe system should be.

My written presentation discusses four possible alternatives for a fail-safe mechanism. After weighing the four, I conclude in the middle of page 4, the law should provide for automatic borrowing from general revenues to provide for any deficit.

But if any such borrowing has not been repaid by September in any year, the law should provide for an automatic increase in the wage tax effective on the following January 1, sufficient to amortize the remaining debt over 5 years.

Such an automatic fail-safe mechanism would absolutely guarantee that the trust funds will never run dry, that the system will not be converted into unlimited general revenue financing, and that any changes in the wage tax will be gradual and have adequate lead time.

My testimony also addresses the remaining long-term deficit, considers the alternative solutions of raising the retirement age from 65 to 66 or raising the wage tax by one-half of 1 percent.

On page 6, I show the alternative economic long-term projections which show that either possibly no solution at all will be needed, or maybe we need both of these solutions and much, much more.

Therefore, we need to keep flexibility in addressing these problems. I think the 1-year increase is a reasonable first step.

[The prepared statement follows:]

Statement of Donald S. Grubbs, Jr., F.S.A.

My name is Donald S. Grubbs, Jr. I am an actuary and am manager of the Washington Office of George B. Buck Consulting Actuaries, Inc. This testimony is my own and does not represent the views of my employer or any one except myself. It is presented in an effort to assist the Congress in the difficult task of finding permanent solutions to the problems of Social Security.

I support the Recommended Bi-Partisan Solution, not because I think it is the best possible solution, but because I think that no better solution stands a change of enactment. Therefore I shall address only several items not settled in the Bi-Partisan Solution, which Congress still needs to resolve. These are the following: (1) A fail-safe mechanism; (2) The remainder of the long-term deficit; (3) Supplemental pensions for federal government employees; and (4) Modification of private pension plan laws to reflect changes in Social Security.

A FAIL-SAFE MECHANISM

The Bi-Partisan Solution is based upon the estimate that the short-term deficit in calendar years 1983–89 will be $150 to $200 billion and that the long term deficit will be 1.8 percent of payroll. The long term estimate is almost certain to be wrong and there is also a good chance that the short term estimate is wrong.

I do not assert that these estimates are high or low, or that I have any better estimates. But I do assert that the items projected are subject to such great variability and uncertainty that it would be a chance occurrence if actual experience were to follow the projections, particularly in the long run. The National Commission has adopted the best estimates it can for its planning purposes. Such estimates are necessary and those adopted appear reasonable. But who was accurately estimating the 1983 deficits only 5 years ago? If we have learned anything from history, it is that economic projections are unreliable.

This unpredictability presents a dilemma. Almost as important as the actual financial problem of Social Security is the problem of public confidence. Young people don't believe they will ever receive a Social Security benefit, and the elderly are afraid their payments will stop. The Bi-Partisan Solution is a responsible step to solving the estimated deficit, but by itself it fails to provide the necessary assurance that benefits will be paid. Even if the Bi-Partisan Solution is enacted, an unexpected further increase in unemployment next year, for example, could produce new headlines proclaiming that the system is going "bankrupt", again destroying confidence in the system.

To help alleviate this problem the National Commission has recommended two standby solutions to be used if needed, interfund borrowing from the Hospital Insurance Trust from 1983 to 1987 and possible reduction of cost-of-living adjustments beginning in 1988. But neither of these solutions is guaranteed to be sufficient to meet possible deficits, so the "bankruptcy" bugaboo would remain. Therefore the National Commission recommended that some type of automatic fail-safe mechanism also be adopted, although it did not specify what the fail-safe mechanism should be.

An automatic fail-safe mechanism must be flexible enough to work in all circumstances and must provide an absolute guarantee that benefits will be paid, forever removing the specter of "backruptcy". Of course Congress will retain the authority to make modifications in the benefits and taxes, but with an adequate fail-safe mechanism no one could ever charge that the trusts will run dry if Congress fails to act in time.

One possible fail-safe mechanism is to automatically reduce all benefits proportionately to the level that can be paid by the assets of the trust. But retired workers have average incomes only half those of active workers, and many live below the poverty line; they are the segment of society that can least afford any reductions. Such a provision would reintroduce an element of uncertainty that would undermine confidence in the system, even if the provisions were never actually triggered.

A second possible fail-safe mechanism is an automatically triggered increase in the wage tax of whatever amount is needed. But changes in the tax rate take some lead time to administer and it may be difficult to predict in advance how much of an increase, if any, is needed. This might necessitate an overly conservative approach with larger tax increases than are really needed. In addition this could lead to abrupt and sudden changes in the tax rate.

A third possible fail-safe mechanism is automatic borrowing from general revenues to cover any deficit. But there may be no actual prospect that such borrowing would be repaid, so that this might result in permanent general revenue financing.

The best solution lies in a combination of the last two alternatives. The law should provide for automatic borrowing from general revenues to provide for any deficit. But if any such borrowing has not been repaid by September 30 in any year, the law should provide for an automatic increase in the wage tax effective on the following January 1, sufficient to amortize the remaining debt over 5 years.

Such an automatic fail-safe mechanism would absolutely guarantee that the trust funds will never run dry, that the system will not be converted into unlimited general revenue financing, and that any changes in the wage tax will be gradual and have adequate lead time.

If this solution is adopted, the Commission's two recommended standby solutions—borrowing from the HI Trust in 1983–87 and reduction of cost-of-living adjustments after 1987—would no longer be essential. But regardless of whether there is borrowing from the Hospital Insurance Trust, I recommend merger of the OASI Trust and Disability Insurance Trust in order to permanently end the need to borrow between these two Trusts or readjust the allocation of contributions between these two, as well as to reduce accounting.

SOLVING THE REMAINING LONG-TERM DEFICIT

The National Commission has based its long term solution upon the assumption that the long-term deficit will be 1.80 percent of payroll. The Bi-Partisan Solution is expected to decrease the deficit by 1.22 percent of taxable wages, leaving 0.58 percent to be met by other solutions. Two alternative solutions have been offered, increasing the retirement age or increasing taxes.

Three earlier advisory bodies have recommended increasing the normal retirement age from 65 to 68, phasing in the three-year increase over a twelve year period beginning in either 1990 or 2000. Eight members of the National Commission have made a more modest suggestion of a one-year increase from 65 to 66 phased in over the 12-year period beginning in 2000, with automatic adjustments thereafter to reflect further increases in life expectancy. The estimated savings is 0.65 percent of payroll. Five other Commissioners have suggested instead either an increase in the wage tax by 0.46 percent each for employees and employers beginning in 2010 or an equivalent general revenue contribution.

Which of these two approaches is preferable? To answer that question it is useful to reexamine the magnitude of the expected deficit. The Commission based its proposals on the IIB assumptions, one of the four alternative sets of assumptions used by the Social Security Administration. The magnitude of the surplus or the deficit under the four sets of assumptions [1] is as follows:

Assumptions:

Projected long-term surplus or deficit as a percent of taxable wages

Assumptions:	
I	+1.29
IIA	−0.82
IIB (adjusted to 1.80 percent	−1.82
III	−6.47

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[1] As shown in table 6 of appendix K of the Report of the National Commission. The 1.82 percent shown in table 6 was later adjusted to 1.80 percent.

The Bi-Partisan Solution would generate savings amounting to 1.22 percent of payroll. Under the IIB assumptions this leaves a deficit of 0.58 percent of payroll, and we have two proposals to solve that 0.58 percent deficit. But no one really knows which of the four sets of assumptions will come closer to the actual experience. If the optimistic I assumptions prove correct, there will be no long-term deficit and neither solution will be needed. If the moderately optimistic IIA assumptions prove correct, the deficit will be small and the other parts of the Bi-Partisan Solution will solve it, again without the need for either of these proposals. But if the III assumptions prove correct, even after the effects of the Bi-Partisan Solution, the remaining deficit will not be 0.58 percent of payroll but over 5 percent. In that case even applying both proposed solutions simultaneously would not be adequate. In that case, it might be necessary to increase the retirement age by three years to age 68 and to also increase the wage tax by 2.6 percent each for employees and employers in order to cover the deficit.

As we get closer to the year 2000, the range of the estimates will narrow. I recommend that Congress plan to solve a projected deficit of 0.58% of payroll, but use an approach that can be adjusted to meet the actual need when it becomes better known. If we are going to have a potential increase in the retirement age, workers need to be told well in advance. Therefore I recommend that Congress enact in 1983 a 1-year increase in the normal retirement age beginning in the year 2000. But I recommend that this increase be phased in over only 4 years rather than the 12 years suggested by the 8 Commissioners. Then if it became apparent as we approach the year 2000 that the III assumptions were closer to being correct, Congress would be in a position to both increase the retirement age to 68 during the 12-year phase-in period and also to add whatever increases it finds necessary in the wage taxes or general revenue financing. On the other hand, if it became clear that experience was following the more optimistic I or IIA assumptions and no solution was needed, Congress could easily eliminate the schedule increase in retirement age.

To the extent that Congress takes no action later to mofify the legislation it passes in 1983, any emerging deficit not otherwise solved by the 1983 legislation can be solved by its proposed fail-safe mechanism. Note that I have recommended that the safe-haven mechanism be a temporary loan from general revenues to be repaid by an increase in the wage taxes.

Thus I suggest a further balancing of the remedies. Any further deficits in the short-term would be financed by the fail-safe mechanism's wage tax increases, the projected long-term deficit would be financed by a 1-year increase in the retirement age, and any additional long-term deficit would be financed either by the fail-safe mechanism's wage tax increase or such a combination of further increases in retirement age and taxes as Congress enacts when the need becomes more clear.

SUPPLEMENTAL PENSIONS FOR FEDERAL GOVERNMENT EMPLOYEES

The Bi-Partisan Solution recommends that all new Federal employes hired after 1-1-84 be covered by Social Security.

The strong negative reaction to this proposal by many Federal employees indicated that this proposal has been misunderstood. It will not affect the benefit of any current Federal employee in any way. In addition the proposal will have the effect of increasing the retirement income of most Federal employees hired in 1994 and later. Under present law, less than half of all new federal employees covered under the Civil Service Retirement System receive any pension at all from that System, either because they terminate employment with less than five years of service, or because they elect to receive a refund of contributions even after five years of service. In addition to receiving no Civil Service pension, These employees generally receive less Social Security benefits that they would receive if they were covered under Social Security during their Federal employment. For this majority of all new federal employees, the proposed charge clearly will provide more retirement income.

For the minority of new Federal employees who would receive a Civil Service pension under present law, Congress will need to design supplemental retirement benefits under the Civil Service Retirement System, just as most major private employers provide pension plans to supplement Social Security. The design of such a program deserves careful study. It is too complex to be included in this Social Security legislation. But what is needed now is a clear statement of Congressional intent to establish such a program, to provide assurance to those concerned about the needs of future Federal employees.

THE RELATION OF SOCIAL SECURITY AND PRIVATE PENSIONS

About half of all American workers are covered under private employer pension plans. Both Social Security and private plans are vital to providing their retirement income. Private employer pension plans now have over $500 billion of assets.

Private pensions and Social Security are closely interrelated. Private plans are designed to supplement Social Security. Both the amount of benefits and the retirement age under Social Security are directly or indirectly reflected in the design of private pension plans.

The laws governing private plans directly reflect this interrelationship. The most important of these is the requirement that the normal retirement age under private pension plans may not exceed the later of age 65 or 10 years of participation. This age 65 maximum, which is the normal retirement age under most private plans, was geared to mesh with Social Security. Therefore Congress cannot consider changing the retirement age under Social Security without weighing the effect on private employer pension plans. Appropriate changes must be made in laws concerning private plans.

It makes sense to have benefits begin at the same time under both Social Security and private pension plans.

THE EFFECT OF INFLATION ON SOCIAL SECURITY AND PRIVATE PENSIONS

The real goal of both Social Security and private pension plans is to enable retired people to maintain an adequate retirement income. When the price of the goods and services they must buy increases, the goal of meeting income needs is defeated unless the sources of income keep pace with the cost of living. Extensive statistics demonstrate that retired Americans are the ones least able to bear any reduction in their already meager standard of living.

Social Security benefits are fully indexed to the cost of living. Maintaining full indexing of Social Security is essential if retired people are not to have their standard of living further reduced.

Private pension plans, on the other hand, are generally not indexed for inflation. Some employers have voluntarily made increases to those already retired, and this is to be commended, but even these employers have not been able to afford increases anywhere near the huge increases in the cost of living in recent years. Thus the purchasing power of private pensions decreases each year after retirement. If the cost of living rises 7 percent per year, the purchasing power of a fixed pension for a person who retires at age 65 is cut in half by age 75, and reduced to one-fourth by age 85. This problem must be solved if private pensions are to be an effective partner with Social Security in meeting retirement income needs.

THE COST OF RETIREMENT AGE CHANGES AND INFLATION ADJUSTMENTS

Raising the retirement age substantially reduces the cost of providing pensions under both Social Security and private pensions. Under Social Security, such cost reductions appear to be needed to offset the rising costs resulting from demographic shifts.

Because private pension plans are advance funded, their costs are not significantly affected be demographic shifts. Increasing the normal retirement age from 65 to 66 would reduce the cost of providing a fixed pension by approximately 10 percent. This cost reduction could pay for the cost of increasing the same amount of pension by approximatly 1.5 percent per year after age 66, or ⅛ percent for each month of deferral after 65. Thus raising the retirement age from 65 to 66 can enable private plans to help overcome their greatest problem.

SPECIFIC LEGISLATIVE PROPOSAL FOR PRIVATE PENSIONS

Private pension plans which have acceptable benefit adjustments after normal retirement age should be allowed to have a normal retirement age higher than 65. Benefit adjustments would not be required for plans which keep age 65 as a normal retirement age.

To be acceptable, benefit adjustment should be required at least annually. Plan sponsors could elect more frequent adjustments if they prefer.

The minimum amount of each annual adjustment should be the lesser of the increase in the Consumer Price Index for the prior year or ⅛ percent for each month that the normal retirement age is higher than 65. A maximum on the annual increase is needed for cost control; no employer is willing to write a blank check. One-eighth percent was chosen as the allowable maximum because that is the approximate amount which can be financed by the cost saving for each month the retirement age is increased above 65. There is no reason to require increases larger than the CPI, even if that is less than this factor, because the whole object is to keep pace with inflation, not pass it by. Of course some plan sponsors might elect to use a higher limit than the one-eighth percent factor. Some employers might elect to provide increases regardless of the CPI increase, an approach that is amenable to certain types of annuity contracts issued by insurance companies to provide guaranteed benefits at guaranteed costs.

Plans could, as now, allow early retirement with actuarially reduced benefits. But post-retirement benefit increases should not be required before normal retirement age, since otherwise a greater reduction would be needed in the early retirement benefit.

Present law forbids any plan amendment which reduces any benefit already accrued. An increase in normal retirement age above 65 which simultaneously adds these post-retirement benefit adjustments should not be regarded as a reduction in the accrued benefit, because the value of the benefit would be approximately the same, and because an important social objective would be accomplished.

This change is a socially desirable one that should be encouraged currently. Early retirement benefits would be available at age 65 for those who elect to retire early. Therefore private plans should be able to effectuate the change in retirement age immediately, and not be required to follow the deferred phase-in contemplated for the retirement age change under Social Security.

This proposal would provide encouragement for plans to change their retirement age and add cost-of-living adjustments, but would not require any plan to be amended. Suggested statutory language is attached to this statement.

I recommend that these changes be made as part of an act increasing retirement ages under Social Security.

Congressman Archer has expressed his concern that Social Security is often viewed as the sole source of retirement income. Many of us who have spent our careers developing private employer pension plans share that concern. Social Security is often viewed as the sole source of retirement income because so frequently that is the actual fact. Of those presently receiving OASI benefits, only about one in four is also receiving a private pension. There is clearly a need to expand the coverage of private pension plans, and to require earlier vesting so that more of those who are covered will actually receive a pension. But that is a subject for separate legislation.

APPENDIX A—PROPOSED AMENDMENTS TO THE INTERNAL REVENUE CODE TO INCREASE NORMAL RETIREMENT AGE

SECTION 411(a)(8)

Section 411(a)(8) is amended by substituting for "65" the following: "68 in the case of a plan described in subparagraph (A) of section 411(d)(7) or age 65 in the case of any other plan".

SECTION 411(d)(7)

Section 411(d) is amended by the addition of the following paragraph (7):

(7) An amendment which increases the normal retirement age for accrued benefits under a plan shall not be considered a decrease in accrued benefits provided—

(A) the plan provides that benefits being paid to each participant and beneficiary shall be increased on annual or more frequent adjustment dates by an amount not less that the lesser of

(i) the increase in the Consumer Price Index for some stated twelve month period ending not more than 12 months prior to the benefit adjustment date, or

(ii) one-eighth of one percent for each month that age 65 precedes the normal retirement age.

such increases to commence no later than the first adjustment date which occurs twelve months after the later of the participant's normal retirement age or the participant's date of termination of employment,

(B) the plan allows each participant who had accrued a benefit prior to such amendment to elect early retirement as of any date he could have elected early retirement under the plan as in effect prior to such amendment, and receive an early retirement benefit at least actuarially equivalent to his accrued benefit otherwise commencing at his normal retirement date, and

(C) the plan allows each participant who was eligible to retire and receive a benefit prior to such an amendment to elect to receive benefit determined under plan as in effect prior to such amendment and not subject to adjustments.

Conforming changes are required to Title I of the employee Retirement Income Security Act of 1974.

Mr. MATSUI. Thank you, Mr. Grubbs.

I would like to thank all the members of the panel for their testimony. I would like to call on Mr. Archer from Texas now for questions.

Mr. ARCHER. Thank you, Mr. Chairman.

I regret I was unable to hear the testimony of the first three members of the panel. I apologize for that. I do want to ask Mr. Grubbs, however, having heard his presentation, why do you believe this is the best program that can pass the Congress?

Mr. GRUBBS. Any alternative either would involve cutbacks in benefits or additional taxes. There is strong opposition to either one. By the nature of a compromise, the whole thing is apt to fall apart if we disapprove this.

I would personally favor not having any cutback in the scheduled increase in cost-of-living benefits because I believe that retirees are the ones in our society who can least afford any cutback in their cost of living.

Mr. ARCHER. You have run a political survey of the Members of Congress that has caused you to believe that no better package could pass the Congress?

Mr. GRUBBS. I just read the newspapers, sir. You know far more about the congressional——

Mr. ARCHER. Well, the whole thesis of your support of the proposal is that nothing better can pass. I assume you have got some basis for making that statement?

Mr. GRUBBS. I believe that if those that felt it would be preferable to have a solution which would better protect the workers with less reductions in benefit than we have here, if they thought that that would have been possible, they would not have agreed to the compromise.

Mr. ARCHER. Yet, you say the proposal does not solve the problem and does not give the assurance to either the young or the old that it is a solution. Do you think Congress is unwilling to face up to a solution that will bring credit to this program so that it can be considered as meritorious by the people of this country?

Do you think that the Congress is that derelict in its ability to meet its responsibilities?

Mr. GRUBBS. No, sir. I am suggesting that absolutely we need some sort of fail-safe, so that no matter what else happens we can be assured those trust funds will not run dry. I have made a specific proposal of a way to guarantee that the trust funds will not run dry by triggering, first, a loan, to be repaid by increases in the wage tax if needed.

Mr. ARCHER. Mr. Chairman, we are fortunate to have some outstanding actuaries on this panel. I am aware of the work of a couple of them, and their resources and testimony, I think, will be a great addition to the record for us to contemplate.

I would like to ask them, from their independent actuarial position, whether they agree with the projection that there is only a long-term shortfall in the fund of 1.8 percent of payroll, because that also includes HI in an overall package.

I wonder if you agree with that and feel this proposal, assuming the supplementary addition is made, either by new taxes or raising the retirement age, which the Commission recommended, is going to take care of the problem over the long term?

Mr. Bartlett. Mr. Archer, my name is Dwight Bartlett, former Chief Actuary of the Social Security Administration. The 1.8 percent long-range deficit, of course, is only for the OASDI program. Even that is under one set of economic and demographic assumptions. It could well be greatly larger than that.

Certainly, the long-range situation of the hospital insurance part of the program is far worse than the problem of the OASDI program.

Sooner or later, Congress has to address that very serious problem for HI as well as the somewhat more modest problem for OASDI.

Mr. Archer. Is it not true that the public is receiving information which would lead them to believe that the Commission's proposal is going to solve the total social security problem in the short term, and in the long term?

Mr. Bartlett. Yes, sir. And in our formal statement that we are presenting, we address that very concern, that this package is going to be oversold to the American public and there will be serious damage to the public confidence and program as a result.

Mr. Archer. Would you like to comment on that, Mr. Facciani?

Mr. Facciani. Yes, I commented on that in my oral statement. We estimate that the long-term deficit under OASDI is not 1.8 percent, but more like perhaps 2.5 to 3 percent. We also estimate that the hospital insurance deficit is somewhere between 5 and 6 percent of payroll.

So we are looking at a long-term deficit probably somewhere around 9 percent, based on intermediate range assumptions. If we go into the pessimistic or worst case, that position could deteriorate. If we have tremendous increases in longevity through genetic or health care improvements, that imbalance could grow much larger.

We also agree, and I stated this, too, that politics of fear, which has surrounded social security legislation over the last decade or so has to cease, and I implored Congress to address the basic structural problems of social security, primarily related to cost of living and extending the normal retirement age.

Mr. Archer. Thank you, Mr. Facciani. Mr. Crowder, would you like to comment at all on it?

Mr. Crowder. I would reinforce Mr. Facciani's comment about the need for the long-term solution. The dramatic increase in longevity which has moved the average life expectancy from age 65, when it was founded to, now, age 71 for a comparable period of life, and age 74 by the end of the century, will have very drastic impact on the social security system.

I would agree with what has been said, that we must step up to this issue, whether it is uncomfortable or not.

Mr. Archer. Thank you very much.

Thank you, Mr. Chairman.

Mr. Matsui. Thank you, Mr. Archer.

Gentlemen, I would like to ask a followup question to Mr. Archer's. Is the 1.8 percent projected deficit over 75 years a reasonable figure, or is it one that you would say is unreasonable, and the actual number is closer to 2.5 or 3.0?

Mr. Bartlett, perhaps? Then we can go down the line.

Mr. Bartlett. Yes, sir.

The Office of the Actuary of the Social Security Administration in their current estimate is going to say that the 1.8 percent has been increased to perhaps 2.1 percent. That is a reasonable best estimate. But when you are talking about a 75-year projection, you are talking about projections which are incredibly sensitive to changes in those economic and demographic assumptions.

So, the possible range of deficits around that best estimate average of 2.1 is very large. Therefore, I do believe that it is important that the program be prudently financed in the long run, so that we do not make excessive benefit promises.

It is much easier later on, if the program's experience turns out to be favorable, to liberalize benefits than it is to pull back on those benefits if you have made excessive promises now based on economic and demographic experience which turns out to be incorrect.

Mr. Matsui. Would you say the 1.8 figure that was used by the Commission is at the lower end of the estimate then?

Mr. Bartlett. That came out of last year's trustee report, I believe, under the II–B assumptions. I believe that those were appropriate intermediate assumptions. I understand the Office of the Actuary now is coming up with a long-range deficit of about 2.1 percent.

I believe that is a prudent best estimate number, but I believe the limitations of that number need to be understood.

Mr. Facciani. Well, as we addressed, you know, we feel 1.8, you know, which just over the weekend turned into 2.1, indicates the volatility of the long-term problem.

As I indicated in our oral statement, we would rather have a margin of safety, for myself and my children and for future generations, so we continue to have generational transfer and not intergenerational warfare at some point down the line.

This long-term problem we have got, to the extent we can develop a surplus of, say, 2 to 2.5 percent of payroll, will help to offset the continuing genetic improvements and hopefully help to offset what appears to be some major deficits in the hospital insurance program.

Mr. Crowder. I do think probably the 1.8 percent is on the low side. If you understand that the sensitivity of the assumptions may drive that figure to as high as 6.5 percent under the pessimistic assumptions from the trustee's report, you can envision just how bad this could be.

The other comment would be that the economic situation is much less optimistic now than it was several years ago, and I think there is a lot of reason to be cautious in this kind of environment.

Mr. Matsui. Thank you. I have one more question.

When Lane Kirkland testified, I believe some other labor leaders testified last week or the week before last, that they were concerned about increasing the age of retirement. We were only talking at that time of raising the retirement age from 65 to 66, not to 68 or even indexing it on the basis of longevity.

Their main concern was that even if our lifespan increases over the next 75 years, the problem is that those people in heavy industry and who do a lot of heavy work will not be able to retire that 12 months later period. In fact, he would advocate reducing the age of retirement.

Could you respond to that? Because that is something that I would like clarified in my mind.

Mr. Detlefs?

Mr. DETLEFS. I talked to Mr. Kirkland a little bit about that at some of the Commission meetings. I think the fallacy in part is the fact that most of the muscle work has been taken out of factory life these days, and the plants that haven't removed it aren't terribly efficient plants. Of course that trend towards automation or however we want to refer to it goes on at a very rapid pace. So it is a bit of a myth, I think, to say that people engage in hard physical labor for long periods of time.

Even under the most aggressive proposal for extending the normal retirement age, the remaining life expectancy will be substantially greater than it was back in 1935 when age 65 was established. I think it is still generally not understood very well what the tremendous financial impact is of extending that age.

If we ultimately move to 68, that is 36 fewer checks that will have to be paid out and 36 more months people would be paying into the system. The combination of that solves the bulk of the remaining long range problems even under the more conservative estimates that have been referred to here.

Mr. FACCIANI. I agree. This country is going through a postindustrial change. Twenty years from now, with the advent of robotics and all kinds of different ways of doing business, I concur that you are going to see a lot less emphasis on heavy duty labor.

Also, any impetus to lower the retirement age at this point is just fiscally irresponsible. I mean we have got a major problem right now in the short term and in the long term. And there is one of two things we can do about it. We can either increase taxes, which unfortunately this Commission report is replete with, or we can decrease benefits. Or we can have a combination of the two. It is really that simple.

So to suggest a lowering of the normal retirement age at this point to me is really absurd.

Mr. MATSUI. Thank you, gentlemen. Mr. Fowler has questions.

Mr. FOWLER. Let me take a step back just a moment here, a step way back. Do you have any real confidence in our or anyone's ability to predict cash flow needs and funding requirements 30 or 40 years down the road? I mean how much of a simple academic exercise, as responsible as we are trying to make it, are we going through in saying that we are going to be able to predict with any sort of certainty whatsoever what the needs of the social security system are going to be with all the economic dips and swerves in the road over the next 30 years? Are we really capable? Do you have that much confidence in your own science?

Mr. **Facciani**. Let me address that initially by giving you an interesting statistic out of Senator Armstrong's report. In 1935 when President Roosevelt proposed the program, he estimated that social security expenditures would be about $1.3 billion in 1980. The actual 1980 outlays were $149 billion. Obviously the science is inexact.

However, I would rather err on the side of safety and conservatism in making projections rather than err on the side of whatever it was back in 1935 that projected a 1.3 instead of $149 billion in outlays.

Mr. **Grubbs**. Your question I feel is very incisive and gets to the heart of the problem. Indeed the future is very unpredictable. That is why any solution needs a fail-safe mechanism. Something that will automatically adjust the system to solve the changes and unpredictability inherent in it. That is why the Commission recommended developing some kind of fail-safe and why I have recommended a specific proposal of that sort.

Mr. **Bartlett**. I would like to comment.

Mr. **Fowler**. Yes, sir.

Mr. **Bartlett**. In my former role as chief actuary of social security one of the first things I did when I joined the Administration in the beginning of 1979 was to review the original actuarial projections made with the original act when it was passed in 1935. Of course then it was strictly an old age program. But the accuracy of the forecasts of those original projections for the old age part of the program turned out to be quite remarkable.

I think that simply highlights the fact that while there are uncertainties in the projections, or in the assumptions, there are other things which are reasonably certain. For example, we know now how many people are in the population, how many people were born that creates the present labor force. And therefore, it is fairly predictable how many people are going to be retiring in the future and the amount of money that is going to be required to finance their retirement in the program.

So while the figures are subject to substantial error, they are still a useful planning tool.

Mr. **Fowler**. Well, I guess this is a political question that we are trying—despite some belief to the contrary, we are trying to be responsible in looking as far down the road and in making some difficult decisions. But Mr. Robertson, former actuary of the system, was with us also yesterday. And he asked us—he called the Commission's figures overly optimistic and asked us to require a similar projection using the most pessimistic assumptions, getting that out on the table before we tried to go in and decide which side we were going to err on the more pessimistic or the more optimistic.

I guess thinking out loud what bothers me is I would like to make some tough decisions. I would like to know that we have confidence that those tough decisions are going to hold up. I don't know anybody who seems to have much confidence that we know precisely what we are doing and what the effect will be in the year 2015. Because it mainly depends on the economy, does it not?

Mr. **Bartlett**. I think you have made a very eloquent argument for removing some of the basic sources of instability in the program which presently exist. That is a basic part of our statement, ways of reducing the amount of instability so the program as financed is not as sensitive to changes and the experience relative to the assumptions. I think that is something the committee needs to focus on very hard.

Mr. GRUBBS. The only question is whether we are going to remove instability by making costs unstable, or benefits unstable. There is no way we can stabilize both. It is an allocation of resources question. If it is necessary, on occasion either to cut benefits or raise taxes—who can least afford that evil?—and I say the retirees are generally the least able to take cuts, then the active workers can pay additional taxes. Neither of us like either, of course.

Mr. FOWLER. The indexation of benefits by whatever level, by whatever formula, then, is a necessary stabilizer, part of the stability of the social security system, or would any of you be so brave as to say that if we eliminated indexation in all entitlement programs, specifically social security, and exercise congressional responsibility every year to look at the economy and state of things and decide how much we can afford and how much we believed we could raise social security benefits, that that would be an improvement?

Mr. DETLEFS. I think if we look at recent history many would conclude that wouldn't be a desirable change, because prior to the enactment of the automatic escalator provisions of several kinds, including cost-of-living back in 1972, the Congress, for several years prior to that time, was accustomed to increasing benefits far greater than the cost-of-living, including a 20-percent increase in 1972 in the absence of which we wouldn't have short-term financial problems of the system today.

So you are subjecting it to the political process, and I think the evidence is that the system is highly sensitive to the political process if we remove the automatic escalator provision relative to benefit changes.

Mr. FOWLER. Well, one would assume we learned something.

Mr. CROWDER. I think we do have one source of instability inherent in the choice of the CPI as a method of indexation. Several of us have made comments in our written statements about that, and the need to install this fail-safe mechanism to get back to a more real measure of the impact of inflation would help stabilize the system.

Mr. FOWLER. Right. Gentlemen, thank you. I have taken too much time.

Mr. MATSUI. Mr. Archer?

Mr. ARCHER. Thank you, Mr. Chairman. I did have a couple of followup questions.

We have heard a lot about what is optimistic and what is pessimistic. The actuaries at SSA have what they call their pessimistic projection. Others have come up, outside groups have come up with what they call the worst case, which is worse than SSA's pessimistic projections. And I want to piggyback on what my colleague from Georgia was talking about, should we use pessimistic or optimistic? Don't we have to really define what is pessimistic?

I have said this many times, and I will say it again because repetition on something this important I think needs to occur. That the past 3 years of actual economic experience have been worse than the worst case projections which are worse than the pessimistic projections of the social security actuaries. Is that not accurate?

Mr. Facciani. Absolutely.

Mr. Fowler. Those are called the apocalyptic projections.

Mr. Archer. Yes. Well, then I would further add—and this is repetitive for those who have been in this room before, but it needs to be said—that if actual experience is worse than the worst case, there must be even a worse case than actual experience. And what is truly pessimistic, because certainly the last 3 years that we have been through are not the worst that anybody could envision economically in this country?

I want to thank you, gentlemen, for saying we should err on the safe side. We should. It means we have to make tougher political decisions. Decisions become more difficult the more we err on the safe side. But that is our responsibility and I believe we should do that.

Let me ask you your evaluation. Since you are all nodding I assume you don't disagree with anything I have said. Tell me what your evaluation of the so-called stabilizer is in the Commission's recommendation. Is it truly a stabilizer, or, as some have said on the committee, a fail-safe that is now going to be out there to protect the fund from ever falling below the point where it can pay the benefits? How much value is this so-called stabilizer that the Commission has recommended, which is the lesser of wages and prices if the fund falls be[illegible] 20 percent with a catchup if it increases above 32 percent?

Mr. Bartlett. In our [illegible] we have said that we feel that the indexing to the less[illegible] of [illegible] or wages is an appropriate step. We regret very much, [illegible] that its effectiveness has been greatly weakened by post[illegible] until 1988, and also having it become effective only if the [illegible] ratio falls below 20 percent, because a great deal of da[illegible] may have been done before that is actually triggered.

We feel it would have been much better to have that come onboard and in effect right away without that very low trigger to make it really effective as a stabilizer.

Mr. Archer. Is it fair to say from your comments that it is really not a stabilizer at all? Is that a fair statement or not?

Mr. Bartlett. It is a very weak positive step. It doesn't fully do the job as a stabilizer.

Mr. Archer. The SSA actuaries, and of course I have taken issue with some of their projections in the past, project this as being of no financial benefit to the fund over the long term. Do you agree with that?

Mr. Bartlett. Yes, I do. It is not a long-term solution.

Mr. Archer. So if we look at 75 years and it is of no benefit to the fund, then it can't be very much of a stabilizer can it?

Mr. Bartlett. It stabilizes the trust fund balances on a year-to-year basis but not averaged out over a 75-year period. There are other ways to stabilize the program over a 75-year period, such as the change in the retirement age we have talked about.

Mr. Archer. You made an extremely important statement, Mr. Detlefs, and I want to thank you for it. That is, what the Congress did in 1972, increasing benefits across the board by 20 percent without adding revenues to the funds.

Can you gentlemen tell me what benefits will buy today in real purchasing power compared to 15 years ago? Because I can tell you. Fifty percent more in real purchasing power today than 15 years ago. And a big part of that was in the 20 percent that you mentioned in 1972.

Mr. **Detlefs**. Because it is compounded from that point.

Mr. **Archer**. That is right. A lot of people like to place the problems of social security today on the failure of the economy to perform the way that the actuaries said it was going to perform. But the 50-percent increase in real purchasing power of benefits over the past 15 years without the necessary taxes to fund that has got to have had a major role into that, too, hasn't it?

Mr. **Facciani**. I agree wholeheartedly. I believe it was 52 percent, as I recall.

Mr. **Archer**. It is 52. I want to be conservative.

Mr. **Facciani**. Well, you are known to be that, sir. I want to emphasize, too, that the 52-percent increase in purchasing power given the rough economic times we have, particularly over the last 5 years, really lends credence to the argument of cutting back on these cost-of-living increases. I take umbrage with Mr. Grubbs, at the far right of the panel, that, you know, we should insure the safety net of cost-of-living increases going on indefinitely in the future.

It has been seen that cost-of-living adjustments has provided, right now a third of the cost of social security is predicated on cost-of-living adjustments. To assume that the generation of taxpaying Americans, which is going to be decreasing from a 3-to-1 to 2-to-1 or less ratio out in the future, can afford to support those increases and continue with a retirement age of 65 and not address the fact that people are living longer than ever is really irresponsible.

Mr. **Archer**. Have you gentlemen had an opportunity to examine the spread out of the economic effect of the Commission's proposal in the short term, through 1989, on a year-by-year basis? And what is your view about whether the proposal is adequate even in the short term? We talked about the long term.

Mr. **Bartlett**. Yes. In our statement we have said that we feel the National Commission's report really does not contain a full actuarial report. We are very concerned about that. We would hope that before Congress makes a decision to adopt the National Commission's proposal in toto or any variation of them, that they obtain a full actuarial report showing not only what the total expected revenues are over the entire period but what the year-by-year projected trust fund balances will be.

Mr. **Detlefs**. If they based unemployment figures, for example, on 2(b) assumptions of the last trustees report, then they only range from about 6 to 8 percent for the balance of the decade. I think it is clear that that could be overly optimistic. That has a tremendous impact on the short range financing of the system.

Mr. **Archer**. Thank you very much.

Mr. **Matsui**. Mr. Jacobs?

Mr. **Jacobs**. I have a general question of the panel, a question that involves a deficit. You are either spending too much or taking in too little or both. I infer from what I have heard that the panel would generally agree that this problem is represented possibly by some overstatement of inflation as well as the unemployment and current recession. Is that a fair assessment of the problem?

Mr. **Grubbs**. I would differ with the thought that inflation has been overstated in terms of the measurements of inflation. The benefit increases in the past, before we went to indexing by the CPI did go up faster than the CPI.

Mr. **Jacobs**. Since 1972 is it fair to say that then up until about 1981 there was about a one-third improvement in the purchasing power, social security, old age/survivors benefit? Would that be a fair statement?

Mr. **Crowder**. Mr. Archer quoted a 52-percent improvement in purchasing value.

Mr. **Jacobs**. I just wondered if we could all agree on one-third. That is the figure I hear most often, while the average weekly wage purchasing power has dropped by about 10 percent. Does that make any sense to anybody on the panel?

Mr. **Grubbs**. Prior to the time when we went to CPI indexing, where we had ad hoc increases, there were increases higher than the CPI. We have had some mechanical problems with the CPI itself which has slightly overstated inflation when interest rates were rising and understated——

Mr. **Jacobs**. I am referring to the coupling problem we had with the 1972 formula. So whatever the reason is there doesn't seem to be too much disagreement that inflation has been overreflected in the increases in the benefits. Is that true?

On the other side of the coin, would anybody quarrel with the proposition that if 14 million weren't out of work right now the trust fund would be in a little better shape on the income side?

Thank you.

Mr. **Matsui**. Gentlemen, we want to thank all of you for appearing here today. You have made a contribution to the deliberations of the subcommittee. Thank you very much.

We would like at this time to call the following individuals: M. E. Smedsrud of Communicating for Agriculture; Leon B. Enfield of the American Farm Bureau Federation; Ruth E. Kobell, National Farmers Union; Gerald Slaybaugh from the National Conference of State Social Security Administrators; A. S. Kinsinger, chairman of the steering committee of the Old Order Amish; and Bill Kelley, former staff director of the Social Security Subcommittee.

Your written comments will be placed in the record, without objection. So, if you possibly could limit your oral comments to approximately 5 minutes, that would be helpful.

We will begin with M. E. Smedsrud with Communicating for Agriculture.

STATEMENT OF M. E. SMEDSRUD, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, COMMUNICATING FOR AGRICULTURE

Mr. **Smedsrud**. Thank you, Mr. Chairman, members of the subcommittee. I am chairman of the board of directors for Communicating for Agriculture, a national, nonprofit, nonpartisan rural advocacy organization. Communicating for Agriculture, otherwise known as CA, works toward several specific goals, but its general goal and the underlying purpose is the preservation and strengthening of rural America.

Our members are concerned about potential or proposed developments which could in any way be harmful to rural America. I would like to call to your attention that the National Farm Coalition has been meeting in Washington Monday and Tuesday. We are members of the coalition. They have asked our organization to pass on to you and your committee members their support of the testimony we are making today.

CA commends the National Commission of Social Security Reform for coming up with a generally good set of proposals designed to save our Nation's vital social security system.

For the most part, they are fair, well-thought out, workable proposals, and CA endorses 9 out of the 10 which are now being considered.

However, CA feels the remaining proposal, which would raise the social security taxes paid by self-employed persons from 9.35 percent to 14 percent, would, if adopted, be harmful to rural America, which, in today's troubled economy, is especially vulnerable because of the agricultural cost-price squeeze.

A large percentage of the Nation's self-employed are farmers, ranchers, and rural small business people, and many of them are staying in business by very thin margins. To add another 4½ percent to the social security tax rate would be detrimental to all of them and fatal to many of them.

With the help of a professional accounting firm, CA has determined that the average farmer who is married, has three children and a net farm income of $20,000, would if the proposal in question is adopted, have to pay $930 in extra social security taxes during the first year and combined net tax of $510 each subsequent year. The way in which these figures were determined is shown in a financial analysis accompaying this testimony.

Many farmers, ranchers, and small business people just could not handle this extra expense. For some, it could mean the difference between the continuation or the termination of their operations. CA understands and agrees that we all must bite the bullet on social security, but rural America is biting the bullet 5 to 10 times harder than the rest of the population.

It would certainly aggravate the economic crisis in rural America, and would directly contribute to the Nation's overall economic crisis.

CA and the National Farm Coalition salutes the members of this subcommittee for giving its attention to the complex but important matter of social security solvency, and offers its fullest cooperation.

However, we urge the subcommittee not to approve the proposal to raise social security taxes for self-employed persons. It would be counterproductive.

Mr. **Matsui**. Thank you, Mr. Smedsrud.

[An attachment to the prepared statement follows:]

ANALYSIS OF PROPOSED SELF-EMPLOYMENT TAX INCREASE
FOR: C. A., INC.
FEBRUARY 1, 1983

C.S.

		CASE #1- SELF EMPLOYED TAXPAYER, MARRIED WITH 3 DEPENDENT CHILDREN, NORMAL BUSINESS INCOME OF $20,000.					CASE #2-SELF-EMPLOYED TAXPAYER, MARRIED WITH 3 DEPENDENT CHILDREN, NORMAL BUSINESS INCOME OF $80,000.				
	RESULTS UNDER CURRENT LAW USING 1984 TAX RATES	S-E INCOME	TAXABLE INCOME	INCOME TAX	S-E TAX	COMBINED TAX	S-E INCOME	TAXABLE INCOME	INCOME TAX	S-E TAX	COMBINED TAX
YEAR 1	NET S-E INCOME		20000					80000			
	LESS: PERSONAL EXEMPTIONS		5000					5000			
	TAXABLE INCOME		15000					75000			
	INCOME TAX-(MFJ)			1581					21468		
	SE TAX, (9.35%, maximum 35,700)	20000			1870		35700			3338	
	COMBINED TAX					3451					24806
YEAR 2	- SAME										
	RESULTS UNDER PROPOSED LAW USING 1984 TAX RATES										
YEAR 1	NET S-E INCOME		20000					80000			
	LESS: PERSONAL EXEMPTIONS		5000					5000			
			15000					75000			
	INCOME TAX-MFJ			1581					21468		
	S-E TAX-14%, maximum 35,700	20000			2800		35700			4998	
	COMBINED TAX					4381					26466
YEAR 2	NORMAL NET S-E INCOME	20000	20000				80000	80000			
	LESS: ½ YEAR 1 S-E TAX PAID EARLY IN YEAR 2	1400	1400				2499	2499			
	NET SE/ADJUSTED GROSS INCOME	18600	18600				77501	77501			
	LESS: PERSONAL EXEMPTIONS	NA	5000				N/A	5000			
	TAXABLE INCOME		13600				77501	72501			
	INCOME TAX			1357					20918		
	SE TAX (14%) MAXIMUM 35,700	18600			2604		35700			4998	
	COMBINED TAX					3961					25416
YEAR 2	DECREASE IN INCOME TAX			<224>					<1050>		
	INCREASE IN SE TAX				734					1160	
	INCREASE IN COMBINED TAX					510					610
	PERCENTAGE OF CHANGE			<14.17%>	37.25%	14.78%			<4.87%>	49.37%	2.46%

Bottom line

This is the net result 14.78%

Net result 2.46%

REMARKS ON ANALYSIS OF PROPOSED S-E TAX INCREASE

1. IN MANY CASES, PARTICULARLY AMONG FARMERS, THE ½ OF INCREASED SELF-EMPLOYMENT TAX WILL NOT BE DEDUCTIBLE UNTIL THE YEAR PAID, CAUSING A ONE YEAR LAG IN ANY INCOME TAX BENEFITS RESULTING FROM MAKING ½ OF S-E TAXES DEDUCTIBLE.

2. THE MARGINAL TAX RATE FOR THE TAXPAYER EARNING $20,000 PER YEAR IS 16%; FOR THE ONE EARNING $80,000 PER YEAR, 42%

3. THE ½ OF S-E TAX WHICH MAY BE DEDUCTIBLE AS A BUSINESS EXPENSE REDUCES SELF EMPLOYMENT INCOME FOR TAXPAYERS EARNING LESS THAN THE MAXIMUM, A SAVINGS OF 14% S-E TAX FOR SUCH TAXPAYERS. FOR TAXPAYERS EARNING MORE THAN THE MAXIMUM, THE NEW PROPOSAL REDUCES INCOME TAX BY 42% BUT DOES NOT SAVE THEM ANY S-E TAX.

4. THE ABOVE ANALYSIS DOES NOT CONSIDER CREDITS BEFORE TAX (INVESTMENT, ENERGY, OR JOBS CREDIT) WHICH FREQUENTLY REDUCE THE INCOME TAX TO ZERO FOR SMALL TAXPAYERS, BUT OFFER NO RELIEF AGAINST SELF-EMPLOYMENT TAX

5. RATIO OF PERCENTAGE OF INCREASE - CASE 1 : CASE 2

6 : 1

14.78% : 2.46%

Taxable Years Beginning After [illegible]

SINGLE RETURN

If taxable income is:	The tax is:
Not over $2,300........	No tax.
Over $2,300 but not over $3,400	11% of the excess over $2,300.
Over $3,400 but not over $4,400	$121, plus 12% of the excess over $3,400.
Over $4,400 but not over $6,500	$241, plus 14% of the excess over $4,400.
Over $6,500 but not over $8,500	$535, plus 15% of the excess over $6,500.
Over $8,500 but not over $10,800	$835, plus 16% of the excess over $8,500.
Over $10,800 but not over $12,900	$1,203, plus 18% of the excess over $10,800.
Over $12,900 but not over $15,000	$1,581, plus 20% of the excess over $12,900.
Over $15,000 but not over $18,200	$2,001, plus 23% of the excess over $15,000.
Over $18,200 but not over $23,500	$2,737, plus 26% of the excess over $18,200.
Over $23,500 but not over $28,800	$4,115, plus 30% of the excess over $23,500.
Over $28,800 but not over $34,100	$5,705, plus 34% of the excess over $28,800.
Over $34,100 but not over $41,500	$7,507, plus 38% of the excess over $34,100.
Over $41,500 but not over $55,300	$10,319, plus 42% of the excess over $41,500.
Over $55,300 but not over $81,800	$16,115, plus 48% of the excess over $55,300.
Over $81,800	$28,835, plus 50% of the excess over $81,800.

MARRIED PERSONS FILING SEPARATELY

If taxable income is:	The tax is:
Not over $1,700........	No tax.
Over $1,700 but not over $2,750	11% of the excess over $1,700.
Over $2,750 but not over $3,800	$115, plus 12% of the excess over $2,750.
Over $3,800 but not over $5,950	$241, plus 14% of the excess over $3,800.
Over $5,950 but not over $8 000	$542, plus 16% of the excess over $5,950.
Over $8,000 but not over $10,100	$870, plus 18% of the excess over $8,000.
Over $10,100 but not over $12,300	$1,248, plus 22% of the excess over $10,100.
Over $12,300 but not over $14,950	$1,732, plus 25% of the excess over $12,300.
Over $14,950 but not over $17,600	$2,395, plus 28% of the excess over $14,950.
Over $17,600 but not over $22,900	$3,137, plus 33% of the excess over $17,600.
Over $22,900 but not over $30,000	$4,886, plus 38% of the excess over $22,900.
Over $30,000 but not over $42,800	$7,584, plus 42% of the excess over $30,000.
Over $42,800 but not over $54,700	$12,960, plus 45% of the excess over $42,800.
Over $54,700 but not over $81,200	$18,315, plus 49% of the excess over $54,700.
Over $81,200	$31,300, plus 50% of the excess over $81,200.

JOINT RETURN

If taxable income is:	The tax is:
Not over $3,400........	No tax.
Over $3,400 but not over $5,500	11% of the excess over $3,400.
Over 5,500 but not over $7,600	$231, plus 12% of the excess over $5,500.
Over $7,600 but not over $11,900	$483, plus 14% of the excess over $7,600.
Over $11,900 but not over $16,000	$1,085, plus 16% of the excess over $11,900.
Over $16,000 but not over $20,200	$1,741, plus 18% of the excess over $16,000.
Over $20,200 but not over $24,600	$2,497, plus 22% of the excess over $20,200.
Over $24,600 but not over $29,900	$3,465, plus 25% of the excess over $24,600.
Over $29,900 but not over $35,200	$4,790, plus 28% of the excess over $29,900.
Over $35,200 but not over $45,800	$6,274, plus 33% of the excess over $35,200.
Over $45,800 but not over $60,000	$9,772, plus 38% of the excess over $45,800.
Over $60,000 but not over $85,600	$15,168, plus 42% of the excess over $60,000.
Over $85,600 but not over $109,400	$25,920, plus 45% of the excess over $85,600.
Over $109,400 but not over $162,400	$36,630, plus 49% of the excess over $109,400.
Over $162,400	$62,600, plus 50% of the excess over $162,400.

HEAD OF HOUSEHOLD

If taxable income is:	The tax is:
Not over $2,300........	No tax.
Over $2,300 but not over $4,400.	11% of the excess over $2,300.
Over $4,400 but not over $6,500.	$231, plus 12% of the excess over $4,400.
Over $6,500 but not over $8,700.	$483, plus 14% of the excess over $6,500.
Over $8,700 but not over $11,800.	$791, plus 17% of the excess over $8,700.
Over $11,800 but not over $15,000.	$1,318, plus 18% of the excess over $11,800.
Over $15,000 but not over $18,200.	$1,894, plus 20% of the excess over $15,000.
Over $18,200 but not over $23,500.	$2,534, plus 24% of the excess over $18,200.
Over $23,500 but not over $28,800.	$3,806, plus 28% of the excess over $23,500.
Over $28,800 but not over $34,100.	$5,290, plus 32% of the excess over $28,800
Over $34,100 but not over $44,700.	$6,986, plus 35% of the excess over $34,100.
Over $44,700 but not over $60,600.	$10,696, plus 42% of the excess over $44,700.
Over $60,600 but not over $81,800.	$17,374, plus 45% of the excess over $60,600.
Over $81,800 but not over $108,300.	$26,914, plus 48% of the excess over $81,800.
Over $108,300	$39,634, plus 50% of the excess over $108,300.

Self-Employment Tax Rates

Self-employed persons pay for their coverage under social security (OASDI) and medicare (HI) with the self-employment tax. It is imposed on self-employment income (self-employment earnings less earnings as an employee subject to social security tax) up to $17,700 in '78, $22,900 in '79, $25,900 in '80, $29,700 in '81, $32,400 in '82, and $35,700 in '83. Thereafter, the tax base is automatically adjusted to keep up with average wage levels.

SELF-EMPLOYMENT TAX

Taxable

'77	7.0	.9	7.9	$1,303.50
'78	7.1	1.0	8.1	$1,433.70
'79	7.05	1.05	8.1	$1,854.90
'80	7.05	1.05	8.1	$2,097.90
'81	8.0	1.3	9.3	$2,762.10
'82	8.05	1.3	9.35	$3,029.00
'83	8.05	1.3	9.35	$3,337.95
'84	8.05	1.3	9.35	*
'85	8.55	1.35	9.90	*
'86-'89	8.55	1.45	10.00	*
'90	9.30	1.45	10.75	*

Mr. MATSUI. At this time we would like to ask Leon Enfield to testify.

STATEMENT OF LEON B. ENFIELD, PRESIDENT, MARYLAND FARM BUREAU, INC., ON BEHALF OF AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY GRACE ELLEN RICE

Mr. ENFIELD. Thank you, Mr. Chairman. I am Leon Enfield, president of the Maryland Farm Bureau. I have with me today Ms. Grace Ellen Rice of the American Farm Bureau staff.

I am a dairy farmer from the State of Maryland. I live about 60 miles from here. We have a three-member partnership in our operation with two employees.

The American Farm Bureau Federation is the Nation's largest general farm bureau organization. We are organized in over 2,800 counties.

The social security system is actuarially unsound. We support a freeze in social security benefits until Congress makes basic reforms in the social security program. We prefer stabilizing benefits rather than an increase in social security taxes. Benefits must be based upon an employee's contributions to the system. Any adjustment in social security benefits should be based on a percentage of the annual decrease or increase in average wages. We oppose any proposal to finance social security retirement income benefits out of general revenues or to exempt low income taxpayers from paying social security taxes because of the level of their incomes.

We oppose the earned income restriction for those on social security.

We recommend that employers and employees continue to share equally in the payment of social security taxes. We support the continuation of the separate deduction of FICA—social security—taxes to make them clearly identifiable.

We urge that all employees, both in the private and public sector, be included in the social security program. We recognize each individual's right to participate in pension plans in addition to social security.

We urge Congress to separate the income supplement benefits in the social security program from the medical benefits. Medical program benefits should be separated from retirement benefits and funded with general revenues.

We recommend that the accumulated wage level of farmworkers for social security deductions be increased from $150 to $1,000, and that the minimum days worked requirement be increased to 40 days. The accumulated income level should be indexed to all future increases in the Federal minimum wage. We recommend that full-time students 17 years old and younger be exempted from social security withholding.

We oppose the payment of social security benefits to all convicted criminals who are serving sentences in Federal and State institutions. We oppose social security payments to alien workers who reside outside the United States or its territories, but support U.S. citizens receiving payments wherever they live.

We urge correction of the inequity in the method of determining earnings of self-employed persons subject to social security taxes when substantial portions of these earnings are related to a return on their investment in business property. A rent equivalent should be made on allowable deduction from earnings for this purpose.

We oppose placing an imputed value on the work/services of the housewife and requiring the husband to pay social security taxes on that imputed value.

Social security financing reform is among 11 issues approved by the American Farm Bureau Federation's board of directors as Farm Bureau's top legislative and regulatory priorities in 1983. The financial consequences of the report of the National Commission on Social Security Reform to farmers as self-employed business people cannot be over-emphasized, nor can the long-term effect of the Commission's failure to address the growth of social security benefits. Just as Farm Bureau seeks a balanced budget through reduced Federal spending, rather than tax increases, we seek social security solvency through stabilized benefits rather than increased payroll taxes.

Some of the Commission's recommendations can be supported by Farm Bureau policy. We commend actions to include nonprofit employees and new Federal employees in the program. We commend efforts to eliminate double-dipping and delay the cost-of-living adjustment [COLA], but these few good points are not enough. They cannot counterbalance the overwhelming weight of the report that works against the interests of farmers, both as self-employed individuals and as employers.

Farmers constitute a significant percentage of self-employed individuals—14 percent. The most recent figures available to us from the Internal Revenue Service and the Social Security Administration indicate that in 1978 there were 1.1 million farmers out of a total of approximately 7.6 million self-employed people. The average annual net income of these farmers was $7,400. Another 300,000 farmers had both farm and nonfarm self-employment income.

The proposed old age, survivors and disability insurance [OASDI] tax rate for the self-employed—100 percent of the combined employer-employee rate—will further reduce net income at a time when farmers already have severely low farm incomes. For example, the current tax rate for self-employed individuals is 8.05 percent or approximately 75 percent of the combined employer-employee rate. If the proposed combined employer-employee rate for the self-employed is enacted, the rate would rise to 10.8 percent in 1984.

If the acceleration of currently scheduled increases occurs in conjunction with the new rate, self-employed people would be faced with a rate of 11.4 percent. This would represent a 40 percent increase in the OASDI rate for the self-employed. Although an income tax deduction of one half of the tax liability would become available to offset income, it is of little benefit to self-employed farmers who may have little farm income.

Farmers are the employers of over 2 million farmworkers. According to U.S. Department of Agriculture statistics, in 1977, 350,000 farmers had a work force of 2.4 million farm employees covered under social security. The average number of workers reported by an employer was nine. When one considers that a farmer must pay his/her own self-employment tax and the employer's share for laborers, the effect of increased social security taxes becomes apparent. As near as I can figure as a self-employed person my taxes would go up some 30 percent over what they presently are.

Perhaps the most significant shortcoming of the Commission report is its failure to address necessary changes in the benefit structure of the social security system. In August 1982 the American Farm Bureau Federation Board of Directors adopted a policy designed to get at the heart of benefit growth in all Federal entitlement programs. Known as "Freeze and Fix" his plan calls for a 3-year freeze in COLA's for all Federal programs, including Social Security.

During the 3-year freeze period Congress would have the responsibility to fix the flaws in the benefit structures. Farm Bureau recommends reducing the growth rate in entitlement programs by linking COLA's to the increase or decrease in wages rather than prices. This type of modification would promote a more equitable burden-sharing between beneficiaries and taxpayers; and would allow for growth of benefits, but not at a rate faster than the wages of taxpayers who must finance the social security program. Benefits would not be cut but the growth rate would be.

In conclusion, I would ask that as the House Ways and Means Committee examines the National Commission's report for inclusion in a legislative package, we urge the committee to:

1. Maintain the current differential for self-employment taxes;
2. Prevent the acceleration of currently scheduled rate increases;
3. Freeze the COLA's in the social security system for 3 years during which time Congress would make basic reforms such as linking COLA's to a percentage of the annual decrease or increase in average wages.

Thank you for your careful consideration of Farm Bureau's statement.

Mr. MATSUI. Thank you.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION PRESENTED BY LEON B. ENFIELD, PRESIDENT, MARYLAND FARM BUREAU, INC.

SUMMARY

The recommendations of the National Commission on Social Security Reform place a disproportionate share of financing the Social Security system shortfall on taxpayers, particularly self-employed individuals such as farmers.

Farmers will be confronted with increased taxes on two fronts. First, they will be faced with a new self-employment tax rate consisting of 100 percent of the combined employer-employee rate. Second, the acceleration in currently scheduled increases will mean higher employer contributions for farm employees.

Another major flaw in the National Commission's report is its failure to address the growth rate in Social Security benefits. Benefits cannot continue to increase at a rate faster than the growth of taxpayers' wages.

As the House Ways and Means Committee examines the National Commission's report for inclusion in a legislative package, we urge the Committee to: (1) Maintain the current differential for self-employment taxes; (2) Prevent the acceleration of currently scheduled rate increases; (3) Freeze the COLA's in the Social Security system for three years during which time Congress would make basic reforms such as linking COLAs to a percentage of the annual decrease or increase in average wages.

STATEMENT

The American Farm Bureau Federation is the nation's largest general farm organization. Farm Bureau is organized in over 2800 counties and represents farmers who produce virtually every commodity grown on a commercial basis in this country. Farm Bureau members, who now number over three million member families in 48 states and Puerto Rico, participate in a comprehensive policy development program at the county, state, and national levels.

At the 64th annual meeting of the American Farm Bureau Federation held last month in Dallas, Texas, voting delegates of the member State Farm Bureaus adopted the following policy on Social Security.

SOCIAL SECURITY

The Social Security system is actuarially unsound. We support a freeze in Social Security benefits until Congress makes basic reforms in the Social Security program. We prefer stabilizing benefits rather than an increase in Social Security taxes. Benefits must be based upon an employee's contributions to the system. Any adjustment in Social Security benefits should be based on a percentage of the annual decrease or increase in average wages. We oppose any proposal to finance Social Security retirement income benefits out of general revenues or to exempt low income taxpayers from paying Social Security taxes because of the level of their incomes.

We oppose the earned income restriction for those on Social Security.

We recommend that employers and employees continue to share equally in the payment of Social Security taxes. We support the continuation of the separate deduction of FICA (Social Security) taxes to make them clearly identifiable.

We urge that all employees, both in the private and public sector, be included in the Social Security program. We recognize each individual's right to participate in pension plans in addition to Social Security.

We urge Congress to separate the income supplement benefits in the Social Security program from the medical benefits. Medical program benefits should be separated from retirement benefits and funded with general revenues.

We recommend that the accumulated wage level of farm workers for Social Security deductions be increased from $150 to $1,000, and that the minimum days worked requirement be increased to 40 days. The accumulated income level should be indexed to all future increases in the federal minimum wage. We recommend that full-time students 17 years old and younger be exempted from Social Security withholding.

We oppose the payment of Social Security benefits to all convicted criminals who are serving sentences in federal and state institutions. We oppose Social Security payments to alien workers who reside outside the United States or its territories, but support U.S. citizens receiving payment wherever they live.

We urge correction of the inequity in the method of determining earnings of self-employed persons subject to Social Security taxes when substantial portions of these earnings are related to a return on their investment in business property. A rent equivalent should be made on allowable deduction from earnings for this purpose.

We oppose placing imputed value on the work-services of the housewife and requiring the husband to pay Social Security taxes on that imputed value.

Social Security financing reform is among eleven issues approved by the American Farm Bureau Federation's Board of Directors as Farm Bureau's top legislative and regulatory priorities in 1983. The financial consequences of the report of the National Commission on Social Security Reform to farmers as self-employed business people cannot be over-emphasized, nor can the long-term effect of the Commission's failure to address the growth of Social Security benefits. Just as Farm Bureau seeks a balanced budget through reduced federal spending, rather than tax increases, we seek Social Security solvency through stabilized benefits rather than increased payroll taxes.

Some of the Commission's recommendations can be supported by Farm Bureau policy. We commend actions to include non-profit employees and new federal employees in the program. We commend efforts to eliminate double-dipping and delay the Cost of Living Adjustment (COLA), but these few good points are not enough. They cannot counterbalance the overwhelming weight of the report that works against the interests of farmers, both as self-employed individuals and as employers.

FARMERS AS SELF-EMPLOYED BUSINESS PEOPLE

Farmers constitute a significant percentage of self-employed indivuduals (14 percent). The most recent figures available to us from the Internal Revenue Service and the Social Security Administration indicate that in 1978 there were 1.1 million farmers out of a total of approximately 7.6 million self-employed people. The average annual net income of these farmers was $7,400. Another 300,000 farmers had both farm and non-farm self-employment income.

The proposed Old Age, Survivors', and Disability Insurance (OASDI) tax rate for the self-employed (100 percent of the combined employer-employee rate) will further reduce net income at a time when farmers already have severely low farm incomes. For example, the current tax rate for self-employed individuals is 8.05 percent or approximately 75 percent of the combined employer-employee rate. If the proposed combined employer-employee rate for the self-employed is enacted, the rate would rise to 10.8 percent in 1984. If the acceleration of currently scheduled increases occures in conjunction with the new rate, self-employed people would be faced with a rate of 11.4 percent. This would represent a 40 percent increase in the OASDI rate for the self-employed. Although an income tax deduction of one-half of the tax liability would become available to offset income, it is of little benefit to self-employed farmers who may have little farm income.

Even without the new self-employment rate and the rate acceleration, some self-employed individuals will find themselves paying increased taxes in 1983 because the taxable wage base continues to rise. The wage base increased from $32,400 in 1982 to $35,700 in 1983. This increase means that maximum taxes rose from $3,029.40 to $3,337.95—an increase of $308.55 or ten percent.

FARMERS AS EMPLOYERS

Farmers are the employers of over 2 million farm workers. According to U.S. Department of Agriculture statistics, in 1977, 350,000 farmers had a workforce of 2.4 million farm employees covered under Social Security. The average number of workers reported by an employer was nine. When one considers that a farmer must pay his/her own self-employment tax and the employer's share for laborers, the effect of increased Social Security taxes becomes apparent.

Although the proposed increase in the contribution rate for employers and employees would accelerate "only" .3 percent in 1984, it cumulatively represents a large increase for farm employers. In addition, the Commission's recommendation to provide a refundable tax credit to employees, but not employers, to compensate for the accelerated tax increases in 1984, destroys the parity that currently exists between the employer-employee contributions. Farm Bureau policy speaks directly to this recommendation by supporting equal contributions. The denial of the credit to employers is not equitable.

FARMERS AS SOCIAL SECURITY BENEFICIARIES

Farm Bureau membership includes currently active farmers who are Social Security taxpayers and retired farmers who are Social Security beneficiaries. Although farmers now have access to retirement tools such as Individual Retirement Accounts and Keogh Plans, Social Security is an important pension plan for many retired farmers. This fact underscores Farm Bureau's commitment to an actuarially sound Social Security system that can be achieved only through stabilized benefits and a realistic payroll tax stucture.

BENEFIT GROWTH MUST BE ADDRESSED: "FREEZE AND FIX"

Perhaps the most significant shortcoming of the Commission report is its failure to address necessary changes in the benefit structure of the Social Security system. The bulk of the funding in the short term of 1983–1989 comes disproportionately through tax increases rather than reductions in the growth of benefits.

The recommended six month COLA delay and the proposed plan to link COLA's to the lower of the increase in the Consumer Price Index or wages in 1988 if the fund ratio falls below 20 percent are starting points for the re-examination of the benefit structure. They, however, fall far short of any meaningful reform that could restore solvency of the trust funds.

In August, 1982, the American Farm Bureau Federation Board of Directors adopted a policy designed to get at the heart of benefit growth in all federal entitlement programs. Known as "Freeze and Fix", this plan calls for a three-year freeze in COLAs for all federal programs, including Social Security. During the three-year freeze period, Congress would have the responsibility to fix the flaws in the benefit structures. Farm Bureau recommends reducing the growth rate in entitlement programs by linking COLAs to the increase or decrease in wages rather than prices. This type of modification would promote a more equitable burden-sharing between beneficiaries and taxpayers; and would allow for growth of benefits, but not at a rate faster than the wages of taxpayers who must finance the Social Security program. Benefits would not be cut but the growth rate would be.

CONCLUSION

Recent news reports indicate that the Social Security shortfall may be more severe than originally forecast by the National Commission. Thus, it becomes more imperative and more timely for Congress to rescue the system, not just from its financial difficulty, but from the political environment that has paralyzed Congress in recent years. Members of Congress were elected to make difficult decisions and as voters we expect the responsible use of our resources as taxpayers.

Farm Bureau re-emphasizes its commitment to a sound Social Security system by recommending a freeze in benefits until Congress makes basic reforms in the program. In the interim, we seek a reduced benefit growth rate, not a benefit cut, for beneficiaries. Long term reforms will require separating retirement from welfare functions and re-establishing a reasonable benefit return compared to tax contributions.

As the House Ways and Means Committee examines the National Commission's report for inclusion in a legislative package, we urge the Committee to: (1) Maintain the current differential for self-employment taxers; (2) Prevent the acceleration of currently scheduled rate increases; (3) Freeze the COLA's in the Social Security system for three years during which time Congress would make basic reforms such as linking COLA's to a percentage of the annual decrease or increase in average wages.

Thank you for your careful consideration of Farm Bureau's statement.

Mr. MATSUI. Ms. Kobell?

STATEMENT OF RUTH E. KOBELL, LEGISLATIVE ASSISTANT, NATIONAL FARMERS UNION

Ms. KOBELL. Thank you very much, Mr. Chairman.

We believe social security is of such fundamental importance to the economic security of farm families that the executive branch and the U.S. Congress must take immediate steps to assure the solvency, reliability, and stability of the system.

The current crisis in social security is neither inherent nor internal. The program is having severe, but temporary, cash-flow problems because of the poor performance of the economy. The troubles are directly attributable to the recession and high levels of unemployment.

In a full-employment economy, the social security retirement trust fund would be in excellent condition.

Nevertheless, nothing must be allowed to undermine public confidence in the social security program. Since, from all indications, a sluggish economy, with unacceptable levels of unemployment, may persist for several years ahead, it is important as the National Commission on Social Security Reform has recommended to take emergency measures to alleviate cash-flow problems for the next 6 years.

In the attachment C, submitted with our statement, which we ask you to include in the record of this hearing, we reproduce in parallel columns, the Commission findings along with the attitude of the National Farmers Union on many of the points.

Obviously, we do not agree with every part and particle of the reform package. Nevertheless, we consider it urgent for the Congress to proceed expeditiously and place a bill on the President's desk hopefully by the end of March.

We do suggest, however, some improvements, refinements, and clarifications which could be adopted without harm to the basic thrust of the Commission recommendations and without causing damaging delay.

Let me review two of the most vital concerns and ask you to note the other recommendations which we make in the basic statement.

First, there is an unfortunate and unforeseen impact upon self-employed farmers in the Commission proposal to increase the self-employment tax rate from 9.3 percent to 13.4 percent, with one-half of the 13.4 percent tax rate being deductible as a business expense for income tax purposes.

Proponents of this provision apparently assumed that this would cut back the self-employed tax rate to the same 6.7 percent rate which now applies to wage earners. This will be true only for higher income self-employed.

Most of America's farmers have been in the lower income brackets for at least 3 years, with little prospect of an escape from that situation anytime soon. For those who have little or no income tax liability, the business deduction will be unusable.

Farmers who have no net income or very little net income have an option to pay the OASDI tax on $1,600 a year in order to continue to contribute to the retirement trust fund. And that was not as bad a year as they have been through since. Now, how does one take a business deduction fully on the overpayment of the tax?

During the Commission deliberations, consideration was given to providing a refundable tax credit, rather than a business deduction. Without being aware of the consequences for low-income self-employed, the Commission opted for the business deduction approach. Clearly, however, self-employed farm operators will pay sharply higher net taxes under the business deduction approach than they would with a refundable tax credit. See attachment D.

Therefore, we feel the Congress should change the provision to a refundable tax credit which would assure that no farmer or other taxpayer would pay more than the intended 6.7 percent rate.

Second, although the Reform Commission made some recommended changes regarding the situation of widows, divorcees, and disabled spouses, a particularly severe problem area is untouched. Farm women do not have equiality in eligibility for benefits. Women, who are for all intents and purposes partners in the farming operation, are not recognized as such for the purpose of payment of taxes towards a social security account in their own names.

As a practical matter, administrative rules and practice have discouraged farm couples from paying social security taxes on both individuals even though the Federal law is quite clear in noting that intent to operate as partners is sufficient, even where there may be no written document to prove the partnership. This discrimination against the farm wife should be rectified.

Thank you for the opportunity to express these concerns and to indicate the urgency of early action on the reform package.

Mr. MATSUI. Thank you very much, Ms. Kobell.

[The prepared statement and attachments follow:]

STATEMENT OF RUTH E. KOBELL, LEGISLATIVE ASSISTANT, NATIONAL FARMERS UNION

National Farmers Union, an organization of some 350,000 family-scale farm operators across the Nation, appreciates the opportunity to present views and recommendations aimed at dispelling real or imagined threats to the solvency of the Social Security retirement trust fund.

We regard Social Security as one of the truly great achievements of American society in the past fifty years. Although National Farmers Union had urged the inclusion of farm operators in the program from the beginning, it was not until 1954 that the law was amended to so provide. Attachment "A" provides a chronology on farmers and Social Security.

Although the Social Security retirement trust fund faces some financial difficulty during the balance of this decade due to the recession and high unemployment, it is a basically sound and durable system which can be assured full financial viability without damage to its basic structure.

We applaud the unanimous finding of the National Commisson that the Congress "should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."

We are heartened that the Reform Commission unanimously rejected alternative proposals, such as its conversion into a voluntary program or the introduction of a means test, which, in our opinion, would lead eventually to the destruction of the system.

Before Social Security, farmers were among the groups having the least cushion for the retirement years. If Social Security were to become bankrupt or to be destroyed legislatively, farmers would again be among the most vulnerable in our society.

Social Security's problems are external, not inherent. The present crisis is entirely attributable to the bad performance of the national economy over the past five years.

When the last major Social Security bill was enacted in 1977, the Congress based its decisions on the "intermediate scenario" in economic projections and felt assured that the new schedule of rates and benefits would keep it financially sound well into the next century.

The economy has not performed as anticipated and the result has been a cash-flow problem resulting entirely from a deficit in revenues rather than from overly bountiful retirement benefits or cost-of-living adjustments.

Fortunately, the shortfall is neither inevitable nor permanent. If most of the currently unemployed were back at work, paying Social Security taxes, this would alone resolve the problem.

It has been estimated that Social Security loses between $5 and $8 billion a year in revenue for each one percent of unemployment. Taking the low end of this range, it can be seen that if unemployment were reduced by six percent, revenues of the Social Security retirement trust fund would improve by $30 billion a year. Multiply that by six times and you take care of the projected deficit about which the Reform Commission was concerned.

Though we are satisfied that the Social Security crisis was greatly overblown by some of its critics, we nevertheless feel that nothing must be allowed to undermine public confidence in the program.

At the same time, we are constrained to warn that, unless steps are taken to move towards a full-employment economy there may be recurring cash-flow crises, even though the Reform Commission's consensus package is designed to take care of things at least to 1990.

Basically, we endorse the consensus package developed by the Reform Commission and consider it urgent that the Congress place a bill on the President's desk for signature hopefully by the end of March.

We do agree with every part and particle of the 22 major findings of the Reform Commission, but we urge early Congressional acceptance of what is a reasonably balanced compromise. See attachment "C".

Having said this, however, we do not feel we can be silent about some improvements, refinements, and clarifications which could be adopted without harm to the basic thrust of the package and without damaging delay.

Our most serious concern relates to the Commission's proposal that the Social Security tax rate for the self-employed be raised from 9.3 percent to 13.4 percent and that one-half of the 13.4 percent tax would be deductible as a business expense for income tax purposes.

It was apparently assumed that this would cut back the Social Security tax for self-employed to the same 6.7 percent tax rate which applies to wage earners. This would be true, in our opinion, only for the higher-income self-employed.

It would not be true for the lower-income self-employed, among which most of America's farmers would be found.

For most of the past 30 years and certainly in the last 3 years, farmers' net income has been chronically low.

For farmers and other self-employed who have little or no federal income tax liability, the business tax deduction would be unusable.

Yet, farmers would still pay a Social Security self-employment tax under the provision of the law which gives them the option of paying the tax on $1,600 a year in income in order to maintain some continuity of payments to the retirement trust fund. See attachments "E" and "F" for regulations under which farmers pay taxes on self-employment income. But, how does one take a business deduction if there is little or no tax liability? It is meaningless.

In attachment "B", we submit some data on the relative proportion of U.S. farmers showing an operating profit or an operating loss for the 1978 tax year, the latest data which we have at the moment from IRS sources.

We understand that during the Reform Commission deliberations, some attention was taken of the possibility of providing a refundable tax credit, rather than a business deduction. Whithout being aware of the consequences for low-income self-employed, the Commission report opted for the business deduction approach. See attachment "D".

Clearly, from examination of limited data from actual farm situations, it appears that self-employed farm operators would pay substantially higher net taxes under the business deduction approach than they would with a refundable tax credit.

Therefore, we think it is essential for the Congress to make provision for a refundable tax credit which would have the effect of assuring that no former or other self-employed taxpayer would pay more than the intended net 6.7 percent tax rate.

In the accompanying attachment "C", we provide our point-by-point attitude on most of the 22 major findings of the Reform Commission.

We do not believe that any reduction in current benefits is needed or desirable. Therefore, we object to both the proposal to delay the cost-of-living adjustment for 6 months and the suggestion to impose federal income tax on Social Security benefits received by higher-income beneficiaries. We consider any reduction of current benefits as a breach of contract.

Some other method of obtaining comparable amounts of revenue should be substituted. One obvious possibility, which would raise more than a comparable amount of revenue, would be to have employers pay the Social Security tax on the entire wage base, not just the share on which the wage-earner pays.

We not with interest that the Reform Commission made some minor recommendations regarding the status of widows, divorcees and disabled spouses, and gave study to numerous other problems of women.

However, apparently no study was given to an area of the law which needs to be rectified if farm and other women are to have some equality in eligibility for benefits.

Farm women, for example, do not have such equality. Women, who for all intents and purposes are partners in the farming operation, are not recognized as such for the payment of self/employment taxes towards a Social Security account in their own names.

As a practical matter, we find many, many examples in our contacts with farm women, where administrative rules and practices are being interpreted to discourage farm couples from paying Social Security taxes on both individuals even though the federal law is quite specific in noting that intent to operate as partners is sufficient for Social Security purposes, even where there may be no written, legal document to prove the partnership.

This sort of discrimination against the farm wife should not be permitted to continue and Congress should make this crystal clear either in the new law or in the legislative language accompanying it.

In conclusion, we believe that the problem of the self-employment taxes needs to be handled in the reform statute now under consideration.

We hope that some clarification can be inserted either in the law or in the legislative language to clarify and perfect the rights of women to Social Security coverage and benefits.

Beyond that, if there is not time to cover other problem areas, we hope that the Congress will commit itself to eventual consideration through statements in the committee reports or conference reports.

We thank you for the opportunity to express our concerns and particularly to indicate our full support for early legislative action on the overall package.

ATTACHMENT "A"

CHRONOLOGY—FARMERS AND THE SOCIAL SECURITY SYSTEM

1935—President Franklin D. Roosevelt, on August 14, signs the federal Social Security bill into law. However, farmers and other self-employed are not included because of perceived difficulties in formulating a system by which they would pay into the retirement system. National Farmers Union had advocated inclusion of farmers and farm workers.

1936—A Farmers Union committee makes a recommendation to the Roosevelt Administration that "the Nation's farmers be given equality of access to the new Social Security program."

1940—National Farmers Union convention at Denver recommends inclusion of farmers in Social Security. Conventions re-echoed the recommendation during the 1940s. The 1945 convention complained that farmers were the only major group left out.

1947—Farmers Union convention delegates again ask Social Security coverage for farmers. Also they propose national health insurance program.

1948—Coverage for farmers proposed by annual convention of National Farmers Union.

1950—National Farmers Union expressed disappointment that farmers were not included in Pub. L. 81-734, although it did bring into the Social Security system some regularly employed farm workers.

1952—Policy statement adopted at Farmers Union convention at Dallas again called on Congress to broaden coverage of the Social Security Act to include farm operators.

1954—Call for coverage of farmers again repeated by Farmers Union convention. On September 1, 1954, President Dwight D. Eisenhower signed an omnibus Social Security bill, Pub. L. 83-761, bringing a number of self-employed groups, including farmers and professionals, into the system. The law also broadened the coverage for part-time farm workers.

1956—Pub. L. 84-880 cleared the way for farm landlords to be considered self-employed farmers for purposes of the Social Security Act. This law also spelled out the regulations for farm workers in greater detail.

1959—In this and later years, Farmers Union advocated improvements in the Social Security program and in 1961, 1964, 1965 and 1967 also urged health care for the aged under Social Security.

ATTACHMENT "B"

DATA ON SELF-EMPLOYED FARMERS, NUMBERS AND OPERATING PROFIT 1978

The total number of persons filing Schedule "F" (farm) returns for 1978 was 3,109,664. Of these 2,666,309 were farm proprietors, while 443,355 were farm landlords.[1]

Of the 3.1 million total, 1.1 million reported only self-employment income. About 300,000 had both farm and nonfarm self-employment income. The remainder had both self-employment and wage income.[2]

Of the total of 3.1 million farm units, 1,671,496 reported an operating profit for the year, while 1,436,557 reported an operating loss. Thus 54 percent reported a profit for farming, 46 percent reported a loss. The average net earnings for all 3.1 million farms was $1,783. The average net income on the profitable farms was $7,814; the average net loss on the unprofitable farm was $5,230.[1]

It should be noted, of course, that almost two-thirds of the farm operations had other income besides the self-employment income, which would affect their situation as relates to payment of Social Security taxes.

Of the 3.1 million farms, about 8 percent were operated by a family headed by a woman.

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[1] Source: IRS Publication 1131, 1978 Statistics of Income, Sole Proprietorship Returns.

[2] Source: Office of Research and Statistics, Social Security Administration, HHS.

ATTACHMENT "C"

COMMISSION FINDINGS

(1) The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles. The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need.

(2) The National Commission recommends that, for purposes of considering the short-range financial status of the OASDI Trust Funds, $150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.

(3) The National Commission finds that, for purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial imbalance for the 75-year valuation period is an average of 1.80% of taxable payroll.

(4) The National Commission recommends that coverage under the OASDI program should be extended on a mandatory basis, as of January 1, 1984, to all newly hired civilian employees of the Federal Government. The National Commission also recommends that OASDI-HI coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations.

FARMERS UNION ATTITUDES

(1) National Farmers Union concurs fully in the unanimous finding of the National Commission that the Congress should not "alter the fundamental structure of the Social Security program or undermine its fundamental principles." Likewise we concur in rejection of proposals to make Social Security a voluntary program or to introduce a means test for beneficiaries.

(2) Assuming that economic stagnation and high unemployment persist for the next several years, the projected deficit may be as large as $150-$200 billion. However, Farmers Union believes that restoration of reasonably full employment would largely, if not completely, relieve the temporary cash-flow problem.

(3) - - - - -

(4) Farmers Union believes, ideally, that coverage should be universal.

COMMISSION FINDINGS

(5) The National Commission recommends that State and local governments which have elected coverage for their employees under the OASDI-HI program should not be permitted to terminate such coverage in the future -- specifically, termination notices now pending would be invalid if the process of termination is not completed by the enactment date of the new legislation.

(6) The National Commission is concerned about the relatively large OASDI benefits that can accrue to individuals who spend most of their working careers in noncovered employment from which they derive pension rights, but who also become eligible for OASDI benefits as a result of relatively short periods in covered employment with other employers. Accordingly, the National Commission recommends that the method of computing benefits should be revised for persons who first become eligible for pensions from non-covered employment, after 1983, so as to eliminate "windfall" benefits.

(7) The National Commission recommends that, beginning with 1984, 50% of OASDI benefits should be considered as taxable income for income-tax purposes for persons with Adjusted Gross Income (before including therein any OASDI benefits) of $20,000 if single and $25,000 if married. The proceeds from such taxation, as estimated by the Treasury Department, would be credited to the OASDI Trust Funds under a permanent appropriation.

FARMERS UNION ATTITUDES

(5) Farmers Union agrees that state and local governments, now in the program, should not be permitted to opt out. However, study is needed on the feasibility of requiring coverage of all state and local government employees.

(6) - - - - -

(7) Farmers Union considers the taxation of 50% of OASDI benefits an unwise policy, for two reasons, it constitutes a reduction of earned benefits and it introduces a means test into the program. Some other provision should be devised for an equivalent amount of revenue.

COMMISSION FINDINGS

(8) The National Commission recommends that the automatic cost-of-living adjustments of OASDI benefits should, beginning in 1983, be made applicable to the December benefit checks (payable early in January), rather than being first applicable to the June payments. The National Commission also recommends that the amount of the disregard of OASDI benefits for purposes of determining Supplemental Security Income payment levels should be increased from $20 a month to $50.

(9) The National Commission recommends that the following changes in benefit provisions which affect mainly women should be made:

(a) Present law permits the continuation of benefits for surviving spouses who remarry after age 60. This would also be done for (1) disabled surviving spouses aged 50-59, (2) disabled divorced surviving spouses aged 50-59, and (3) divorced surviving spouses aged 60 or over.

(b) Spouse benefits for divorced spouses would be payable at age 62 or over (subject to the requirement that the divorce has lasted for a significant period) if the former spouse is eligible for retirement benefits, whether or not they have been claimed (or they have been suspended because of substantial employment).

(c) Deferred surviving-spouse benefits would continue to be indexed as under present law, except that the indexing would be based on the increases in wages after the death of the worker (instead of by the increases in the CPI, as under present law).

FARMERS UNION ATTITUDES

(8) The proposed six-month delay in automatic cost-of-living benefits is, in effect, a reduction in benefits, and unjustifiable in our opinion.Cost of living adjustments are vital to retirees and should not be scaled down simply due to a blundering federal policy on money and credit has caused inflationary pressures.

Special Note: National Farmers Union has no disagreement with points (a), (b), (c), and (d). However, these were only a few of the changes which the Commission studied involving rights of women as beneficiaries. A large area, however, did not come to the attention of the Commission, namely, the rights of a spouse in a self-employment situation. On this subject, the National Farmers Union policy statement, urges that "recognition should be given to the contribution which women partners make to the operation and management of a family farm. Under present law, women who are partners in the operation of a family farm are not covered for survivor benefits or disability insurance unless husband and wife have paid Social Security taxes for both as partners." In many instances, farm couples are discouraged from paying Social Security taxes on both even though the law is quite clear in noting that intent to operate as partners is sufficient even though there may be no written document to prove the partnership.

COMMISSION FINDINGS

(d) The benefit rate for disabled widows and widowers aged 50-59 at disablement would be the same as that for non-disabled widows and widowers first claiming benefits at age 60 (i.e., 71½% of the Primary Insurance Amount), instead of the lower rates under present law (gradually rising from 50% at age 50 to 71½% for disablement at age 60). Such change would not only be applicable to new cases, but would also be applicable to beneficiaries of this category who are on the rolls on the effective date of the provision.

(10) The National Commission recommends that the OASDI tax schedule should be revised so that the 1985 rate would be moved to 1984, the 1985-87 rates would remain as scheduled under present law, part of the 1990 rate would be moved to 1988, and the rate for 1990 and after would remain unchanged. The HI tax rates for all years would remain unchanged. The resulting tax schedule would be as follows:

	Employer and Employee Rate (each)			
	OASDI		OASDI-HI	
Year	Present Law	Proposal	Present Law	Proposal
1983	5.4%	5.4%	6.7%	6.7%
1984	5.4	5.7	6.7	7.0
1985	5.7	5.7	7.05	7.05
1986	5.7	5.7	7.15	7.15
1987	5.7	5.7	7.15	7.15
1988-89	5.7	6.06	7.15	7.51
1990 and after	6.2	6.2	7.65	7.65

For 1984, a refundable income tax credit would be provided against the individual's Federal income-tax liability in the amount of the increase in the employee taxes over what would have been payable under present law.

FARMERS UNION ATTITUDES

(10) Some adjustment in the rate schedule appears justified as a part of the reform package. However, Congress should make the rate changes for 1986 and beyond subject to review,
not
since they may/be needed in a revitalized national economy.

COMMISSION FINDINGS

(11) The National Commission recommends that the OASDI tax rates for self-employed persons should, beginning in 1984, be equal to the combined employer-employee rates. One-half of the OASDI taxes paid by self-employed persons should then be considered as a business expense for income-tax purposes (but not for purposes of determining the OASDI-HI tax).

Under present law, self-employed persons pay an OASDI tax rate which is approximately equal to 75% of the combined employer-employee rate (exactly 75% for 1985 and after) and an HI tax rate which is 50% of the combined employer-employee rate. Also, under present law, self-employed persons cannot deduct, as business expenses, any OASDI-HI taxes paid. The reduction in income taxes payable by the self-employed during 1984-89 as a result of considering one-half of their OASDI taxes as a business expense is estimated to be about $12 billion.

(12) The National Commission recommends that the proposed OASDI tax rates should be allocated between the OASI and DI Trust Funds in a manner different from present law, in order that both funds will have about the same fund ratios.

(13) The National Commission recommends that the authority for inter-fund borrowing by the OASDI Trust Funds from the HI Trust Fund be authorized for 1983-87.

FARMERS UNION ATTITUDES

(11) National Farmers Union does not object to the proposal to raise the OASDI tax rate for self-employed to the combined rate for employees and employers, providing that there is an iron-clad provision assuring that the net tax will not be greater than for the wage-earning employee. As proposed, this will not happen except for higher-income self-employed. Self-employed farmers with either a low tax liability or none at all will not be able to use the business tax deduction. The provision, instead, should be for a refundable tax credit, as had been explored in Commission Memorandum No. 56. Clearly, low-income self-employed will pay more net tax under the business deduction arrangement than they would under a refundable tax credit.

(12) - - - - -

(13) Authority for inter-fund borrowing should continue to 1989.

COMMISSION FINDINGS

(14) The National Commission recommends that a lump-sum payment should be made to the OASDI Trust Funds from the General Fund of the Treasury for the following items:

(a) The present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957 (subject to subsequent adjustments if the experience deviates from the estimates).

(b) The amount of the combined employer-employee OASDI taxes on the gratuitous military service wage credits for service after 1956 and before 1983 (which were granted as a recognition of non-cash remuneration, and the cost of which is met, under present law, when additional benefits derived therefrom are paid). The payment would include interest, but would be reduced for any costs therefor which were paid in the past to the OASDI Trust Funds from the General Fund of the Treasury. In the future, the OASDI Trust Funds would be reimbursed on a current basis for such employer-employee taxes on such wage credits for service after 1982.

(c) The amount of uncashed OASDI checks issued in the past (which were charged against the trust funds at time of issue), estimated at about $300-400 million. (The problem of uncashed checks in the future has been corrected as a result of changed procedures of the Treasury Department with regard to checks which are uncashed for a long time.)

FARMERS UNION ATTITUDES

(c) Uncashed checks should be returned to the Social Security trust fund from which they were drawn, rather than to the Treasury.

COMMISSION FINDINGS

(15) The National Commission recommends that, beginning with 1988, if the fund ratio of the combined OASDI Trust Funds as of the beginning of a year is less than 20.0% (except that, for 1988, the fund ratio to be considered would be that estimated for the end of that year), the automatic cost-of-living (COLA) adjustments of OASDI benefits should be based on the lower of the CPI increase or the increase in wages. If the fund ratio is 32.0% or more at the beginning of a year, payments will be made during the following year as supplements to monthly benefits otherwise payable to make up to individuals for any use of wage increases instead of CPI increases in the past, but only to the extent that sufficient funds are available over those needed to maintain a fund ratio of 32.0%.

(16) The National Commission recommends that the Delayed-Retirement Credit should be increased from the present 3% (for persons who attained age 65 after 1981) to 8%, to be phased in over the period 1990-2010.

(17) The National Commission recommends that, in the case of salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code, any salary reduction thereunder shall not be treated as a reduction in the wages subject to OASDI-HI taxes.

FARMERS UNION ATTITUDES

(15) Farmers Union believes that it would be desirable to continue to link cost-of-living adjustment to the CPI. CPI is a more general yardstick, more applicable to our society as a whole. In normal times, often wage increases have run somewhat ahead of the inflationary rate.

(16) - - - - -

(17) - - - - -

COMMISSION FINDINGS

(18) The National Commission believes that, in addition to the stabilizing mechanism of Recommendation (15), a fail-safe mechanism is necessary so that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little advance notice. Several types of fail-safe mechanisms are possible other than the one currently being used --inter-fund borrowing; there is strong disagreement among the members as to which type of mechanism should be used. A combination of these types of mechanisms would, of course, be possible.

(19) The National Commission recommends that the investment procedures of the OASI, DI, HI, and SMI Trust Funds be revised so that (1) all future special issues would be invested on a month-to-month basis, (i.e., without fixed maturity dates, as under present law), at an interest rate based on the average market rate of all public-debt obligations with a duration of four or more years until maturity (not including "flower bonds"); (2) all present special issues would be redeemed at their face amount; (3) all "flower bonds" would be redeemed at their current market values; (4) all other current holdings would be held until maturity (unless disposed of sooner, if needed to meet outgo); and (5) only special issues would be purchased by the trust funds in the future.

(20) The National Commission recommends that two public members be added to the Board of Trustees of the OASDI Trust Funds. The public members would be nominated by the President and confirmed by the Senate. No more than one public member could be from any particular political party.

FARMERS UNION ATTITUDES

(18) - - - - -

(19) - - - - -

(20) This would be an acceptable arrangement.

COMMISSION FINDINGS

(21) A majority of the members of the National Commission recommends that the operations of the OASI, DI, HI, and SMI Trust Funds should be removed from the unified budget. Some of those who do not support this recommendation believe that the situation would be adequately handled if the operations of the Social Security program were displayed within the present unified Federal budget as a separate budget function, apart from other income security programs.

(22) The majority of the members of the National Commission believes -- as a broad, general principle -- that it would be logical to have the Social Security Administration be a separate independent agency, perhaps headed by a bi-partisan board. The National Commission recommends that a study should be made as to the feasibility of doing this.

FARMERS UNION ATTITUDES

(21) National Farmers Union for several years has recommended that Social Security be removed from the unified budget. It should never have been placed therein, since it is a separate trust fund, and the revenues are legally reserved for program purposes. Congress has no responsibility to make annual appropriations from the Truest Fund. Inclusion in the unified budget merely makes it a target for political critics.

(22) National Farmers Union would find this acceptable. Our organization has recommended that the policy functions of OASDI be performed by a board of directors, appointed by the President and confirmed by the Senate, with staggered terms, and with the top administrator appointed by the board of directors.

ATTACHMENT "D"

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM
736 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20503

October 8, 1982

MEMORANDUM NO. 56

TO: Members of the National Commission on Social Security Reform

FROM: Robert J. Myers
Executive Director

SUBJECT: Cost Effect of Increasing Contribution Rate for Self-Employed Persons to Combined Employer-Employee Rate

At the meeting of the National Commission on September 20, a request was made for a cost estimate as to the effect of increasing the OASDI-HI contribution rates for the self-employed to those for the employer and employee combined, and at the same time providing a refundable income tax credit equal to 25% of the OASDI-HI taxes paid. This would be effective for 1984 and after.

Under present law, the self-employed rate is 1½ times the employee rate for OASDI and is the employee rate for HI.1/ For 1982-84, the aggregate effect for the OASDI-HI tax rate is that the self-employed rate is 69.8% of the combined employer-employee rate, with the corresponding proportions being 70.2% for 1985, 69.9% for 1986-89, and 70.3% for 1990 and after according to the tax schedule in current law.

Insofar as the OASDI tax rates are concerned, the proposal would involve no increase in cost to the self-employed over the long run, because the increased OASDI tax would generally be exactly counterbalanced by the refundable tax credit.2/ The doubling of the HI tax rate for the self-employed, however, would result in a net increased cost, because the refundable income tax credit would offset only half of the increased HI tax. For example, for a self-employed person with the estimated maximum taxable earnings of $37,500 in 1984, the present basis would result in an OASDI-HI tax of $3,506.25, while the proposal would produce a net cost (after allowing for the refundable income tax credit) of $3,768.75.

1/ In 1982-84, the self-employed rate is .05% less than 1½ times the employee rate.

2/ In 1984, because the self-employed rate is slightly less than 75% of the combined employer-employee rate, there would be a very small increased cost to the self-employed -- namely, $18.75 for a person with earnings of $37,500, the currently estimated earnings base for 1984.

Some persons might argue that this proposal would indirectly inject general revenues into the financing of the OASDI and HI programs on an ongoing basis. The counter argument could be made that virtually the same result would occur if all self-employed persons were to incorporate their businesses, in which case half of the combined employer-employee rate would be considered a business expense and would thus result in lower income-tax liability. (For those in the 50% income-tax bracket, the result of such incorporation on the net cost for both OASDI-HI and income taxes would be the same as would occur under the proposal; for those in lower brackets, such net cost would be somewhat higher due to incorporation than under the proposal.)

The additional income to the OASDI and HI programs under this proposal is estimated under the Alternative II-B assumptions, to be as follows (in billions):

Calendar Year	OASDI	HI	OASDI-HI
1984	$.9	$.4	$1.3
1985	2.8	1.3	4.1
1986	3.1	1.5	4.6
1987	3.4	1.7	5.1
1988	3.6	1.8	5.4
1989	3.8	2.0	5.8
1990	4.2	2.1	6.3
1991	4.8	2.2	7.0

The long-range OASDI cost savings for this proposal is .19% of taxable payroll over the 75-year valuation period, under the Alternative II-B assumptions (.15% for the first 25-year period, .19% for the second 25-year period, and .23% for the third 25-year period). The corresponding cost savings for the HI program over its 25-year valuation period is .14% of taxable payroll.

The decreases in general revenues resulting from the refundable income tax credit are estimated to be as follows, on an "accrual" basis (in billions):

Calendar Year	Loss in Revenues
1984	$1.1
1985	3.4
1986	3.9
1987	4.3
1988	4.6
1989	4.9
1990	5.4
1991	6.0

Robert J. Myers

B-3 Accelerate the 1985 and 1986 OASDI-HI tax rates to 1984.**

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-9.4	-.6	0	0	0	0	-10.0
III, OASDI	0	-9.1	-.6	0	0	0	0	-9.7
II-B, HI	0	-4.9	-3.8	-.2	0	0	0	-8.8
III, HI	0	-4.7	-3.8	-.2	0	0	0	-8.7

25-Year Cost, OASDI: -.02% of taxable payroll
50-Year Cost, OASDI: -.01% of taxable payroll
Long-Term Cost, OASDI: -.01% of taxable payroll

25-Year Cost, HI: -.02% of taxable payroll

B-4 Increase the OASDI-HI tax rate for self-employed persons to the combined employer-employee rate, effective in 1984.***

Estimate	Cost (in billions of dollars)							
	1983	1984	1985	1986	1987	1988	1989	1983-89
II-B, OASDI	0	-.9	-2.8	-3.1	-3.4	-3.6	-3.8	-17.5
III, OASDI	0	-.8	-2.6	-3.0	-3.3	-3.6	-3.9	-17.3
II-B, HI	0	-.4	-1.3	-1.5	-1.7	-1.8	-2.0	-8.7
III, HI	0	-.4	-1.2	-1.5	-1.7	-1.8	-2.0	-8.6

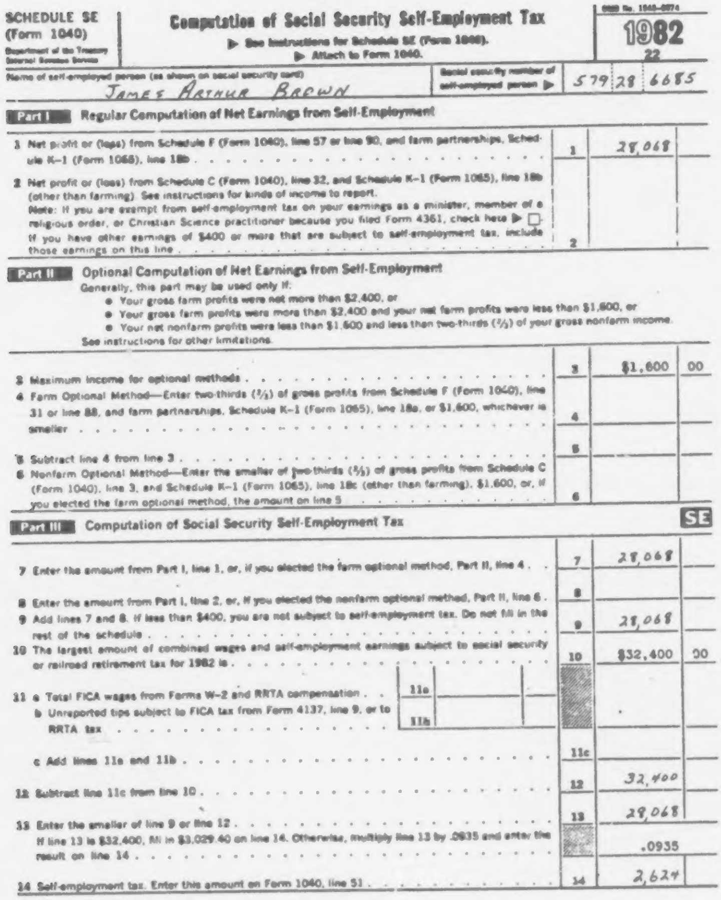
25-Year Cost, OASDI: -.15% of taxable payroll
50-Year Cost, OASDI: -.17% of taxable payroll
Long-Term Cost, OASDI: -.20% of taxable payroll

25-Year Cost, HI: -.14% of taxable payroll

** The figures shown assume that the taxes resulting from the 1986 increase in the HI portion of the tax rate would go into the HI Trust Fund. It would be possible to keep the HI tax rate under the proposal at the same level in 1984-85 as under present law and to reallocate the increase in the OASDI-HI rate entirely to the OASDI Trust Funds; then, the cost effect for the OASDI Trust Funds would be the sum of the figures shown for OASDI and HI.

*** In conjunction with this proposal, a tax credit for the self-employed equal to 25% of the self-employment tax could be provided. Alternatively, 50% of the payroll tax paid by the self-employed could be made tax deductible as a business expense.

ATTACHMENT "E" SCHEDULE SE - FORM 1040



SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service

Computation of Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1982
22

Name of self-employed person (as shown on social security card) JAMES ARTHUR BROWN

Social security number of self-employed person ▶ 579 28 6685

Part I Regular Computation of Net Earnings from Self-Employment

1 Net profit or (loss) from Schedule F (Form 1040), line 57 or line 90, and farm partnerships, Schedule K–1 (Form 1065), line 18b	1	28,068	
2 Net profit or (loss) from Schedule C (Form 1040), line 32, and Schedule K–1 (Form 1065), line 18b (other than farming). See instructions for kinds of income to report. Note: If you are exempt from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed Form 4361, check here ▶ ☐ If you have other earnings of $400 or more that are subject to self-employment tax, include those earnings on this line	2		

Part II Optional Computation of Net Earnings from Self-Employment

Generally, this part may be used only if:

- Your gross farm profits were not more than $2,400, or
- Your gross farm profits were more than $2,400 and your net farm profits were less than $1,600, or
- Your net nonfarm profits were less than $1,600 and less than two-thirds (⅔) of your gross nonfarm income.

See instructions for other limitations.

3 Maximum income for optional methods	3	$1,600	00
4 Farm Optional Method—Enter two-thirds (⅔) of gross profits from Schedule F (Form 1040), line 31 or line 88, and farm partnerships, Schedule K–1 (Form 1065), line 18a, or $1,600, whichever is smaller	4		
5 Subtract line 4 from line 3	5		
6 Nonfarm Optional Method—Enter the smaller of two-thirds (⅔) of gross profits from Schedule C (Form 1040), line 3, and Schedule K–1 (Form 1065), line 18c (other than farming), $1,600, or, if you elected the farm optional method, the amount on line 5	6		

Part III Computation of Social Security Self-Employment Tax **SE**

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4	7	28,068	
8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6	8		
9 Add lines 7 and 8. If less than $400, you are not subject to self-employment tax. Do not fill in the rest of the schedule	9	28,068	
10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax for 1982 is	10	$32,400	00
11 a Total FICA wages from Forms W–2 and RRTA compensation — 11a			
b Unreported tips subject to FICA tax from Form 4137, line 9, or to RRTA tax — 11b			
c Add lines 11a and 11b	11c		
12 Subtract line 11c from line 10	12	32,400	
13 Enter the smaller of line 9 or line 12	13	28,068	
If line 13 is $32,400, fill in $3,029.40 on line 14. Otherwise, multiply line 13 by .0935 and enter the result on line 14		.0935	
14 Self-employment tax. Enter this amount on Form 1040, line 51	14	2,624	

ATTACHMENT "F"

Instructions for
Schedule SE
Social Security Self-Employment Tax

Purpose

Schedule SE is used by self-employed persons to figure any self-employment tax due. The Social Security Administration uses the information provided on Schedule SE to figure benefits for self-employed people under the social security program. Social security self-employment tax applies regardless of your age, and even if you are receiving social security benefits.

Who Must Use Schedule SE

You must use Schedule SE if:

- You were self-employed,
- Your net earnings from self-employment were $400 or more, and
- You did not have wages (including tips)of $32,400 or more that were subject to social security tax or railroad retirement tax.

Who Should Use Schedule SE

You should use Schedule SE if you will benefit from using the optional method of computing self-employment earnings.

Use of the optional method may benefit you if:

- Your self-employment earnings are less than $400 and Form 1040, line 33, is less than $10,000 and you wish to claim the earned income credit; or
- You had a loss from self-employment and you need to increase your net earnings from self-employment to qualify to claim the child and dependent care credit.

Fiscal Year Filers

If your tax year is a fiscal year, you must use the tax rate and earnings base that apply at the time the fiscal year begins. You need not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

More Than One Business

If you farmed and had at least one other trade or business or had two or more trades or businesses, your net earnings from self-employment are the combined net earnings from all your businesses. If you had a loss in one trade or business, it reduces the income from another. Figure the combined self-employment tax on Schedule SE.

Joint Returns

Show the name of the spouse with self-employment income on Schedule SE. If both spouses have self-employment income, each must file a separate Schedule SE. Include the total profits or losses from all businesses on Form 1040, line 12 or 19, as appropriate. Then enter the combined self-employment tax on Form 1040, line 51.

Community Income

In figuring net earnings from self-employment, if any of the income from a business, including farming, is community income, all the income from that business is considered the income of the spouse who carried on the trade or business unless there is a husband and wife partnership. The identity of the spouse who carried on the trade or business is determined by the facts in each situation.

If you file separate returns, attach Schedules C and SE (for nonfarm business) or Schedules F and SE (for farm business) to the return of the spouse with the self-employment income. Community income included on these schedules must be divided, for income tax purposes, on the basis of the community property laws.

Partnerships

In figuring your combined net earnings from self-employment, you should include your entire share of earnings from a partnership, including any guaranteed payments. However, if you are a limited partner, do not include your share of income or loss from the partnership, other than guaranteed payments. Unless you and your spouse are partners, no part of your partnership earnings can be treated as your spouse's even if the income, under State law, is community income. If you and your spouse have a partnership, enter the distributive share of each as partnership income on Schedule E (Form 1040), Part II for income tax purposes, and on separate Schedules SE, line 1 or line 2, for self-employment tax purposes.

If a partner in a continuing partnership dies, that member's distributive share of partnership ordinary income or loss for the year must be included in the partner's net earnings from self-employment.

Share-Farming

If you produced crops or livestock on land belonging to another for a share of the crops or livestock produced, or the proceeds from them, you are an independent contractor and a self-employed person rather than an employee. Report your net earnings for income tax on Schedule F and for social security self-employment tax on Schedule SE.

Line-By-Line Instructions

We have provided specific instructions for some of the lines on the schedule. Those lines that do not appear in the instructions are self-explanatory.

Name of self-employed person. Enter the name and social security number of the self-employed person as it appears on that person's social security card.

Part I

Regular Computation of Net Earnings from Self-Employment

Income Not Included in Net Earnings from Self-Employment

- Salaries, fees, etc. subject to FICA tax which you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained under Income Included in Net Earnings from Self-Employment) or as an employee or employee representative under the railroad retirement system.
- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments, if you had no other interest in the partnership and did not perform services for it during the year.
- Real estate rentals, unless received in the course of a trade or business as a real estate dealer. These include cash and crop shares received from a tenant or sharefarmer. You should report these amounts on Schedule E, Part I.
- Dividends on shares of stock and interest on bonds, debentures, notes, certificates, or other evidence of corporate indebtedness unless received in the course of your trade or business as a dealer in stocks or securities.
- Gain or loss from:
  - The sale or exchange of a capital asset;
  - The sale, exchange, involuntary conversion, or other disposition of property, unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business;
  - Certain transactions in timber, coal, or domestic iron ore; or
  - Net operating losses from other years.

Other Income Included in Net Earnings from Self-Employment

- Rental income from a farm if the rental arrangement provides for material

(over)

participation by the landlord and, as landlord, you participated materially in the production or management of the production of farm products on this land. This income is farm earnings. Report it on Schedules F and SE. (To determine whether you participated materially in farm management or production, do not consider the activities of any agent who acted for you.)

- Payments for the use of rooms or other space when services are also provided to the occupant, such as rooms in hotels, boarding houses, tourist camps, or homes.
- Payments you received for space in parking lots, trailer parks, warehouses, or storage garages.
- Income you received from the retail sale of newspapers and magazines if you are 18 or over and kept the profits.
- Income you received as a crew member of a fishing vessel with a crew of normally less than 10 individuals. See **Publication 595**, Tax Guide for Commercial Fishermen, for more information.
- Fees you received for services performed as a State or local government employee provided you are compensated solely on a fee basis and the position is not covered under a Federal-State social security coverage agreement.
- The rental value of a home or an allowance for a home furnished you if you are a minister or a member of a religious order.
- The value of meals and lodging provided to you for the convenience of your employer if you are a minister or member of a religious order.
- Director's fees and other payments received by a director of a corporation for services as a director.
- Fiduciaries' fees received by professional fiduciaries. Also, nonprofessional fiduciaries if the fees relate to active participation in the operation of the estate's trade or business or the facts indicate the fiduciary manages an estate which requires extensive management activities over a long period of time.

Lines 1 and 2.—Exclude from lines 1 and 2 any income or expense not included in figuring net earnings from self-employment and attach an explanation. If you are a partner, adjust lines 1 and 2 for any expense deduction for recovery property (section 179) claimed, oil or gas depletion, or unreimbursed partnership expenses.

Part II

Optional Method for Figuring Net Earnings from Farm Self-Employment

If your gross farming profits for the year were not more than $2,400, you can report two-thirds of your gross farm profits instead of your actual net earnings from farming.

If your gross farm profits were more than $2,400, and your net farm earnings were less than $1,600, you can report $1,600 on line 4.

There is no limit on how many times you can elect this optional method. If you use this method, you must apply it to all farm earnings from self-employment for the year. This method can be used to increase or decrease net farm earnings, even if the farming operation resulted in a loss. You may change the method (from actual net to optional net or the reverse) after you file your return.

For a farm partnership, figure your share of gross profits according to the partnership agreement. With guaranteed payments, your share of the partnership's gross profits is your guaranteed payment plus your share of the gross profits after they are reduced by all guaranteed payments of the partnership. Limited partners should include only guaranteed payments.

Mr. Matsui. At this time we would like to call Mr. Slaybaugh.

STATEMENT OF GERALD SLAYBAUGH, CHAIRMAN, LEGISLATIVE COMMITTEE, NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS, AND CHIEF OF SOCIAL SECURITY, STATE OF KANSAS, ACCOMPANIED BY CARLOS A. GALLEGOS, PRESIDENT, NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS, AND DIRECTOR, SOCIAL SECURITY DIVISION, STATE OF NEW MEXICO

Mr. Slaybaugh. My name is Gerald Slaybaugh, and I am chairman of the Legislative Committee of the National Conference of State Social Security Administrators [NCSSSA]. Presently I also serve as chief of social security for the State of Kansas. Appearing with me today is Mr. Carlos Gallegos from New Mexico, president of the National Conference of State Social Security Administrators.

As I understand it, my printed statement will be submitted for the record. Is that right?

Mr. Matsui. Yes, it will be.

Mr. Slaybaugh. Thank you.

The National Conference represents all States that have entered into agreements with the Social Security Administration for social security coverage on a State and local basis. We entered into those agreements beginning in 1951 and are continuing to amend those agreements even today.

While our National Conference endorses all the proposals of the National Commission on Social Security Reform, we do believe there is a problem with the State and local recommendation, number five. We have contracts in existence that we don't believe should be unilaterally changed. We, as majority members of the Reform Commission, believe there would be constitutional problems if that were to happen. Instead, we have come up with three recommendations that we would like for the committee to take a look at.

No. 1, would be to permit each State agency to modify its agreements to remove the termination clause from the existing contract. I am not sure how many States will actually do this, but that would certainly be a way to get around it. At least five States presently do not permit any State terminations or local terminations.

No. 2, deem all State and local employees presently covered to be self-employed for purposes of social security. The problem that I have with this recommendation is that it would cost the trust funds and that we would be paying a self-employment tax rather than paying both shares of the tax as we now do.

No. 3, deem only those State and local employees who would opt out of social security to be self-employed but require the tax to be the same as if they stayed under employment. This would probably be the single best and probably the most controversial approach. On the one hand you still give the employer, the State, or local unit of government the right to terminate coverage while maintaining the fiscal integrity of the trust fund by requiring the employee to pay both shares of the continued coverage.

If you would accept this recommendation, we urge you also to permit anyone who presently works for an employer who has terminated their coverage or has not chosen to be covered to be individually covered under a grandfather clause. Certainly some tax incentive should be given to these employees if they in turn want to pay both shares as versus working for an employer who would pay half of it as most employers do now.

We strongly believe there are many employees who have had their coverage terminated that would like to obtain coverage on an individual basis without having to seek reemployment with another organization that has not terminated their coverage. Again, care would have to be exercised to be sure that this would not be detrimental by creating another category of windfall benefits. I am sure legislation could put certain modified benefits on those who rejoin the system simply to forgo a spouse's benefit.

We have done much work with the Social Security Administration in trying to prevent terminations and to give to those employees information that would let them make a logical choice. If you decide to sidestep the issue of terminations altogether, at least we urge you to pass legislation that would require every employee group that is going to terminate to have a referendum vote among the employees so that we are sure the employees know what their employer is doing. And the employees then would be able to find out the benefits they are going to lose.

We do not believe social security can be replaced in any private pension plan or replacement plan at the costs we are paying for it today.

Thank you.

Mr. Matsui. Thank you, Mr. Slaybaugh.

[The prepared statement follows:]

STATEMENT OF GERALD SLAYBAUGH, CHAIRMAN, LEGISLATIVE COMMITTEE OF THE NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS

My name is Gerald Slaybaugh, I am the Chairman of the Legislative Committee of the National Conference of State Social Security Administrators (NCSSSA). Presently I also serve as Chief of Social Security for the State of Kansas. I sincerely appreciate the privilege and opportunity to testify before you today.

This statement is presented solely in my capacity as Chairman of the Legislative Committee of NCSSSA. The NCSSSA is an organization representing all public employers covered under Section 218 of the Social Security Act through its member state administrators responsible for administering that section of the Social Security Act.

While the testimony I am presenting will deal primarily with only one of the recommendations of The National Commission on Social Security Reform we would like to go on record as favoring in principle all of the recommendations that were published by that distinguished group. We all recognize the need for the changes and feel we all must support those changes to keep the funds solvent for present and future retirees.

The National Commission on Social Security Reform recommendation that I would like to address is labeled No. 5 and is stated as follows:

"The National Commission recommends that State and local governments which have elected coverage for their employees under the OASDI-HI program should not be permitted to terminate such coverage in the future—specifically, termination notices now pending would be invalid if the process of termination is not completed by the enactment date of the new legislation.

The NCSSSA believes as do a majority of the members of the National Commission (see page 2-27 of the Commission Report) that to prohibit terminations would create concern involving the constitutional problem.

BACKGROUND

COVERAGE OF STATE AND LOCAL EMPLOYEES

Unlike the work force as a whole, social security coverage for employees of States and our political subdivisions is exercised at the option of the State or local jurisdiction on a voluntary, group basis. This is executed through agreements between the State and the Secretary of Health and Human Services.

About 70 percent of the 15 million State and local employees are covered under social security under these agreements. Most of the remaining 30 percent could be covered under social security but we have not exercised that option.

If a coverage group is composed of employees who are already covered under another retirement system, we must determine by means of a referendum vote whether those employees wish to be covered. Coverage may be elected for employees who are not under a retirement system without regard to their desires.

The record suggests that this concept of voluntary participation by employees of State and local governments was established to avoid possible constitutional issues that might arise if the Federal Government mandated coverage and, in turn, the social security tax on the States.

The law permits the termination of coverage for employees covered under an agreement provided the state gives 2 years advance notice, but such notice cannot be given until the social security coverage has been in effect for at least 5 years. The law also provides that once the social security coverage of position in the employment of a State or local entity has been terminated, the decision is irrevocable. The same political subdivision cannot be brought back into the system again, once its withdrawal has become final.

The NCSSSA, through its member States, has worked vigorously to halt termination or at the minimum try to ascertain if the employees being terminated are aware of the loss that they will suffer once they are put out from under the umbrella of an almost universally portable system. Our organization works hand in hand with the national SSA office in dealing with the termination problem. We have appointed one of our members to act as Liaison Officer with the Office of Governmental Affairs in developing kits to be used when the question arises at a State or local level, to develop other facts and provide a point where these facts can be disseminated to all States to use in combating those who would make employees believe terminating would be "a good deal."

STATISTICS ON TERMINATIONS

Since 1959 the Social Security Administration (SSA) has told me that 967 employers covering 242,279 employees have terminated their coverage. No statistics are available on how many employers have elected coverage over the same period of time but I can assure you more employees have obtained coverage since 1959 than have in fact terminated.

Presently 287 employers with 103,889 employees plan to terminate their coverage on 12-31-83 another 347 employers with 123,395 employees plan to terminate on 12-31-84. No estimate as to the cost to the trust funds is available should all the entities terminate that have actually filed notice.

RECOMMENDATIONS

In order to avoid the constitutional problem several different approaches could be used to arrive at the goal of the commission. That goal is stopping terminations. We belive a passage of good law versus a law clouded with constitutional problems would certainly be perferred. We therefore submit the following recommendations:

1. Permit each State to modify its agreement to remove the termination clause from the original agreement.

This would require the States to give up their right to terminate coverage. We do question the number of States that will be willing to modify their agreements.

2. Deem all State and local employees presently covered to be self-employed for purposes of social security.

While there definitely has been precedence set for this, the trust funds would suffer a financial loss. The loss would occur because of the difference between the self-employed rate and the combined employer-employee rate. The employee would suffer if forced to pay a rate higher than other employees pay.

3. Deem only those State and local employees who "opt" out of social security as self-employed but require the tax to be the same as if they remained in covered employment.

This would probably be the single best and most controversial approach. On one hand you still give the employer, i.e., State or local government the right to terminate coverage while maintaining the fiscal integrity of the trust funds by requiring the employee to pay both shares for continued coverage.

If you accept this recommendation we urge you to also permit anyone who presently works for an employer who has terminated their coverage to individually become covered under a "grandfather"clause. Certainly some tax incentive should be given to those who are forced under this method of coverage. The credit should be available to those who actually pay both shares as opposed to those who are reimbursed for paying the employer share. Allowing for a credit on their tax return for the amount paid that is in excess of the single employee rate would be equitable. We strongly believe there are many employees who have had their coverage terminated that would like to obtain coverage on an individual basis without having to seek re-employment with another organization that has not terminated their coverage.

Care would have to be exercised to be sure this would not be detrimental to the trust funds by creating another windfall category of benefits. Perhaps the legislation could place certain modified benefit computation limits on those who rejoin the system simply to draw a benefit or to forego a spouse offset when they retire in a short period of time.

I admit that much work would have to be done on arriving at an equitable solution to re-joining the system and not creating a windfall benefit. However, I am sure the trust funds would not suffer as much as if a bad law (bad from being unconstitutional) was passed and then have it litigated for many years to come.

You could also permit anyone presently working for a non-covered entity that has never chosen to be covered to pay their tax in the same method as described above.

It is time we face the fact that most employees who have studied the benefits presently available to them under social security want to remain under the system. We urge you to make it as easy as possible for those who want to obtain coverage or to keep coverage to do so. Our association firmly believes there are too many aspects of social security that cannot be duplicated by the private sector through retirement plans, insurance or any replacement plans, and therefore termination should be eliminated in a manner consistent with good law and fair and equitable treatment to all employees.

If you so choose to side step the general issue of termination at least consider the possibility of mandating a referendum among those employees whose employers have or may file for termination. We believe at the least this will draw to the employees attention what their employer is intending to do. We would urge you to make this effective upon passage.

SUMMARY

In summary let me again state the National Conference of State Social Security Administrators opposes taking away the right to terminate coverage while at the same time we urge you to preserve the social security coverage presently being afforded to state and local governmental employees. We believe we have given you viable options through our recommendations that will accomplish this goal.

Mr. **Matsui**. At this time we will call on Mr. Kelley, former staff director of the Social Security Subcommittee.

Welcome back.

STATEMENT OF JAMES W. KELLEY, FORMER STAFF DIRECTOR, SUBCOMMITTEE ON SOCIAL SECURITY, COMMITTEE ON WAYS AND MEANS

Mr. **Kelley**. Thank you, Mr. Chairman, and thank you very much for moving me up. When the schedule was made last night, I didn't know that I was going to have a conflict this afternoon.

Mr. Chairman, I will be very brief. I am appearing as a private individual with a longstanding interest in maintaining the integrity of the social security system, which I believe to be the most successful social program in our Nation's history.

My testimony is in general support of the recommendations agreed to by the National Commission on Social Security Reform. I do have a few suggestions to make, though, concerning some of what I consider to be the gaps in the details of its recommendations. I would point out since I was engaged in doing some consulting work for some of the organizations that have an interest in the coverage issue, I will refrain from commenting on that one.

As a former staff member of the Committee on Ways and Means it would go against my grain to recommend the committee rubberstamp the recommendations of any advisory body. The track record of past commissions and advisory councils in recommending sound social security changes, while generally commendable, is not completely unsullied. I do not think, however, that under the present circumstances the committee would be abdicating its responsibility in making a special effort not to alter the basic framework of the Commission's recommendations.

The particular issues on which I would like to comment are the taxing of benefits, raising the tax rate for the self-employed, the basic financing shortfall of 1985 to 1989 and the long-range alternatives.

So far as taxing benefits is concerned, you have the notch to fix. I think the recommendation made by former Commissioner Ball is a workable alternative way to go on that. I would like to suggest also that there is some concern that the average beneficiary feels that he is eventually going to be taxed under this. One way to avoid that, or to allay that type of a concern, would be to index the threshold of exempt income.

With respect to the tax rate increase for the self-employed, I feel that although it has been defended that the recommendation the Commission made does do equity between the self-employed and corporate employer, that the proper perspective for viewing this is among all of the self-employed. I would recommend that the preferable way to go would be a refundable tax credit.

In looking at the financing shortfall of 1985 through 1989, I would suggest that some consideration be given to a temporary triggered general revenue loan authority expiring in 1990, along the lines of the provision adopted by the House in 1977 amendments.

With respect to the long-range financing issues, there are sincere differences of opinion as to the wisdom or the necessity of dealing with these issues in the limited timeframe that you have to work on this legislation, which is roughly the early part of May.

My own feeling on this is that probably a compromise could be worked out which would go somewhere midway between the recommendations made by various members of the Commission, including a partial or a less extensive tax rate increase than was recommended by some of them, and consideration of, in place of raising the retirement age, modifying the benefit formula itself. I believe that modifying the benefit formula would treat future beneficiaries in a more equitable way since I think the real beneficiaries of an increase in the retirement age would be individuals who would work beyond age 65 regardless of what their benefits might be.

Thank you very much.

Mr. MATSUI. Thank you, Mr. Kelley.

[The prepared statement follows:]

STATEMENT OF JAMES W. KELLEY, CONSULTANT ON SOCIAL SECURITY LEGISLATION

Mr. Chairman and Members of the Subcommittee, my name is James W. Kelley, I am a consultant on social security legislation and—as I trust and hope you will remember—I served as the staff director of your subcommittee until the middle of last year.

I am appearing as a private individual with a longstanding interest in maintaining the integrity of the social security program, which I believe to be the most successful social program in our nation's history.

My testimony is in support of the recommendations agreed to by the National Commission on Social Security Reform. I will make a few suggestions concerning some undefined details of, or minor adjustments in, the Commission's recommendations.

I am not testifying on behalf of any interests other than those I have just expressed. However, since I was engaged in the recent past in rendering technical assistance to organizations whose members are directly affected by the Commission's recommendation to extend social security coverage to future Federal employees, and in the interest of avoiding any possible appearance that I am speaking on behalf of such organizations—which I most definitely am not—I shall refrain from discussing that recommendation.

As I have stated, I am in general support of the Commission's recommendations. As a former member of the staff of the Committee on Ways and Means, it would go against my grain to recommend that the Committee "rubber stamp" the recommendations of any advisory body. The track record of past commissions and advisory councils in recommending sound social security changes, while generally commendable, is not unsullied. I do not think, however, that the Committee would be abdicating its responsibility in making a special effort not to alter the basic framework of the Commission's recommendations.

The reality of the situation dictates special handling concerning this legislation. That reality is that, unlike any other major legislation in my memory, the hard political bargaining on these amendments was engaged in before they have been introduced. This legislation represents the compromised agreement of most of the major informed interests including the White House and the leadership of the House and Senate. One would have to caution temperance in tampering with its essential elements at the risk of jeopardizing the ability to deliver the social security checks of over 35 million beneficiaries next July. The deterioration of public confidence in the ability of the Federal Government to conduct its business, should that occur, is difficult to contemplate.

The particular issues on which I would like to comment are: the taxing of benefits; raising the tax rate for the self-employed; the possible financing shortfall of 1985–1988 under the Commission's recommendations; and the long range alternatives.

You have heard an abundance of testimony describing these issues. I will, therefore, limit my remarks to briefly stating my suggestions for dealing with them.

1. TAXING BENEFITS

I have not been able to devise a more acceptable solution to the "notch" problem than the one offered to you last week by former Commissioner Ball. There seems to be no leeway for lowering the threshold of nontaxable income agreed to by the Commission.

I would also suggest that the concerns of the average beneficiary could be allayed by indexing this threshold to increases in average earnings. The importance of the marriage penalty problem that has been alluded to, in my opinion, has been somewhat exaggerated.

2. TAX RATE INCREASE FOR THE SELF-EMPLOYED

Although the proposed tax deduction for self-employed individuals has been defended by some Commission members as providing equity of treatment between the self-employed and corporate employers, I do not think that is the proper perspective from which to view it. I believe the equity should be between self-employed individuals affected and I would suggest that the income tax treatment of SECA taxes be provided through a refundable tax credit rather than a business deduction.

3. FINANCING SHORTFALL, 1985–88

Advancing a larger portion of the 1990 tax rate increase than was recommended by the Commission would appear to violate an essential element of the agreement.

Advancing the effective date of the Commission's proposed stabilizer without changing its trigger would probably not provide an adequate safeguard. I would therefore suggest consideration of a temporary triggered general revenue loan authority expiring in 1990 along the lines of the provision adopted by the House in 1977.

4. LONG-RANGE FINANCING ISSUES

There are sincere differences of opinion as to the wisdom or the necessity of dealing with long-range structural changes in the program in the severely limited time constraints applicable to this legislation, which needs to be in place by early May. Given a more relaxed atmosphere than we appear to enjoy, I would suggest splitting the issues into short-range and long-range and acting on them separately.

Recognizing the pressures that exist to handle both in the same legislation, I would make the following brief observation:

The choice is between: (A) increasing future tax revenues; (B) delaying the age of entitlement to "full" benefits; and (C) modifying the benefit computation formula. It would appear that a compromise is possible involving a combination of a more limited tax rate increase than the one recommended by five members of the Commission and (B) raising the retirement age or (C) modifying the benefit formula. I would suggest that first consideration be given to (C) rather than (B) because an increase in the retirement age would be to the greater detriment of people who would find it more difficult—for physical or whatever other reasons—to work beyond a certain age and would be a bonus, as compared to a general reduction through the benefit computation, for people who would continue to work beyond a certain age regardless of the amount of their social security benefits.

Either alternative constitutes a benefit reduction. I believe that a modification of the benefit formula, which affects all beneficiaries in equal proportions, is the fairer alternative.

Thank you, Mr. Chairman, for allowing me this opportunity to express my views on these important issues.

Mr. **Matsui**. Mr. Kinsinger?

STATEMENT OF A. S. KINSINGER, CHAIRMAN, OLD ORDER AMISH STEERING COMMITTEE

Mr. **Kinsinger**. Thank you, Mr. Chairman.

Honorable congressional members, I appreciate the privilege of being with you today. However, I will admit I would feel more at home at my Lancaster County farm. I would add a couple words here on behalf of myself and other Amish members here today, as our religion forbids photographs or posing for photographs. I would certainly appreciate if this would be respected throughout the day.

I speak here today as chairman of the Old Order Amish Steering Committee in behalf of the Amish and Old Order Mennonites throughout the United States.

My main concern today regards my brethren who are for religious reasons opposed to paying or receiving social security, but to date, have been unable to be exempt from the same.

Most of you are probably aware that in 1965, a bill was passed with the kind assistance of the then-chairman of the Ways and Means Committee, Wilbur Mills, for religious groups able to meet the requirements to be exempt from the Social Security Act.

The Old Order Amish Mennonites were very thankful for this. However, although it is based on religion, it only exempts the self-employed, and since we have many younger members who have not been able to be self-employed, but are seriously opposed for religious reasons to be covered by the Social Security Act, which has caused them deep religious concern as well as a feeling that it is not fair to exempt the self-employed for religious reasons and not their employees.

Through the deep concern and prayers of the affected members and their brothers, we feel Congressman Richard Schulze and others have been moved to do something about this, for which I feel most grateful. Accordingly, several identical bills have been introduced; namely, H.R. 411 and H.R. 1148 of which we hope and pray that each of you members will support until its final passage.

Some of you may recall the quite recent court case brought before the U.S. Supreme Court by non-Amish, but friends of the Old Order Amish. He was an Amish farmer and carpenter and had valid social security exemption. He had several Amish men working for him who also held social security exemptions but since they were lease employees, the exemption was not considered valid.

However, he, for religious reasons, did not withhold social security from their pay, so the IRS threatened to take their small farm and home. Non-Amish neighbors were sympathetic with Lee, and took the case to the district court, where the court held in favor of the Amish.

The case was then appealed to the U.S. Supreme Court where they ruled against Mr. Lee with the remarks that it would be detrimental to the Social Security Act to relieve certain religious groups from social security through the courts.

They did, however, suggest that it should be a minor matter for Congress to relieve the Amish employees as they did relieve the self-employed in 1965, and that it would possibly save the Government money by doing so.

I will admit that I felt it a fair ruling. You may ask how could it save the Government money? Under the proposed bill, should an employee with an approved exemption work for an employer with no exemption, social security would be withheld, but only the employees' share would be refunded.

Also, when an application for exemption is filed, applicant signs to the effect that he will not be eligible for social security or medicare. The same procedure would be used for processing and making its finding against eligibility as presently used for self-employed.

You may wonder why there is a need for an exemption. Why not pay in but just not collect? First, we are religiously opposed to the social security system in any form, and further, should the father willingly go along and pay into the system but not collect, it would only lead to a strong temptation for the next generation to pay into the system and also collect.

We strongly believe that a good example speaks louder than words. We are admonished through the Bible and through our church to be a humble, peaceable, and law-abiding people. But when law and religion conflict, then we have no choice but to humbly stand for our religion.

I have seen time and again where a checking account or savings account was taken right from the bank which hurt deeply and was needed badly. Being in the thousands, the applicant will in no way try to collect social security. You may say or think if we use these people, if we excuse these people from the social security, what will keep them from requesting exemption from taxes that are used for military and so forth.

But this is not the case. Again, we are admonished by our church and the New Testament to pay our legal and due taxes as Jesus directed his disciples to pay. What the Government does with the money is up to them. If social security were a tax as at times claimed, there would be no problem, and we would willingly pay. But it is considered by the Amish group as an insurance for which they are religiously opposed—which they are religiously opposed to.

Even the original title, old age and survivors' insurance, brings this out. We will not wish to condemn or in any way weaken or interfere with the social security program for the ones that want it, but we would humbly plea that our employees also be excused from the social security as the self-employed were excused so that they need not with a troubled conscious seek ways to avoid the social security program.

The Amish are only human and not as perfect as our non-Amish neighbors would take us to be, and not near as perfect as we would like to be, and we would not wish to be a burden to our Government or men in authority or to be a hindrance to anyone.

We desire no financial assistance from our State or Federal Government in any way. But again, we would humbly plea that we be allowed to take care of our own in our own way, as through alms and brotherly love as has always been our custom and has been sufficient to this day.

Several years past, workmen's compensation and unemployment were made compulsory in the State of Pennsylvania through the assistance of our statesmen in authority. A bill was introduced to excuse certain religious groups that would meet the requirements.

Patterned after the 1965 social security exemption bill and it was passed by the State senate and house with a 100 percent in favor.

Can we depend on our Federal House and Senate to do the same? We thank you honorable men in authority kindly, and do wish each and every one the grace and blessings of God in your many tasks ahead.

[The prepared statement follows:]

STATEMENT OF ANDREW S. KINSINGER, CHAIRMAN, OLD ORDER AMISH STEERING COMMITTEE

Honorable Congressional Members, I appreciate the privilege of being with you today, however I will admit that I would feel more at home on a Lancaster County farm.

I speak here today as chairman of the Old Order Amish Steering Committee in behalf of the Amish and Old Order Mennonite, throughout the United States, and my main concern today regards my brethren who are for religious reasons opposed to paying or receiving Social Security but to date have been unable to be exempt from same.

Most of you are propably aware that in 1965 a bill was passed with the kind assistance of the then chairman of the Ways and Means Committee "Wilbur Mills," for religious groups able to met the requirement to be exempt from the Social Security act, and the Old Order Amish and Mennonites are very thankful for this, however although it is based on religion it only exempts the Self-employed and since we have many younger members, who have not been able to be self employed but are seriously opposed, for religious reasons, to be covered by the Social Security Act, which has caused them a deep religious concern, as well as a feeling that it is not fair to exempt the self employed for religious reasons, and not their employees.

Through the deep concern and prayers of the effected members, and their brethren, we feel that Congressman Richard T. Schulze and other, have been moved to do something about this, of which we feel most grateful and accordingly several identical bills have been introduced, namely H.R. 411 and H.R. 1148, of which we hope and pray that each of you members will support until its final passage

Some of you may recall the quite recent Lee Court case that was brought before the U.S. Supreme Court by Non Amish but friends of the Old Order Amish. Lee was a Amish farmer and carpenter, and had a valued Social Security Exemption. He had several other Amish men working for him, who also held a Social Security exemption, but since they were Lees employees the exemption was not considered valued, however Lee for religious reasons did not withhold Social Security from their pay, so the I.R.S. threatened to take their small farm and home. The non Amis neighbors were sympathetic with Lee and took the case to the district court where the court held in favor of the Amish. The case was then appealed to the United States Supreme Court where they ruled against Mr. Lee with the remark that it would be detrimental to the Social Security Act to relieve certain religious groups from social Security, through the courts. They did however suggest that it should be a minor matter for congress to relieve the Amish employees, as they did relieve the self-employed in 1965 and that it would possibly save the Government money by doing so. I will admit that I felt it a fair ruling.

You may ask, how could it save the Government money? Under the proposed biil, should a employee with a approved exemption work for a employer with no exemption, Social Security would be withheld, but only the employees share would be refunded. Also when an application for exemption is filed, applicant signs to the effect that he will not be eligible for Social Security or Medicare.

The same precedure would be used for processing and making its finding as to eligibility as is presently used for Self-Employed. You may wonder why there is a need for a exemption. Why not pay in, but just not collect? First we are religiously opposed to be in the Social Security System in any form, and further should the father willingly go along and pay into the system, but not collect, it would only lead to a strong temptation for the next generation to pay into the system and also collect. We strongly believe that a good example speaks louder then words. We are admonished through the Bible and our church to be a humble, peaceable and Law abiding people, but when law and religion conflict then we have no choice but to humbly stand for our religion.

I have seen, time and again where a checking account, or Savings account was taken right from the bank, which hurt deeply and was needed badly, being in the thousands but applicant will in no way try to collect Social Security.

You may say or think, if we excuse these people from the Social Security, what will keep them from requesting exemption from taxes that are used for military, etc.?, but this is not the case, and again we are admonished by our church and the New Testament to pay our legal and due taxes as Jesus directed his disciples to pay. What the government does with the money is up to them, and if Social Security were a tax as at times claimed, there would be no problem and we would willingly pay, but it is considered by the Amish group as an insurance of which they are religiously apposed to. Even the original title, Old Age and Survivors Insurance brings this out.

We would not wish to condemn, or in any way weaken or interfere, with the Social Security program for the ones that want it, but we would humbly plea that our employees also be excused from Social Security as the Self-Employed were excused, so that they need not with a troubled conscious seek ways to avoid the Social Security Program. The Amish are only human, and not as perfect as our Non-Amish neighbor would take us to be, and not near as perfect as we would like to be, and we would not wish to be a burden to our Govenment or men in authority or to be a hinderance to any one.

We desire no financial assistance from our State or Federal Government in any way but again we would humbly plea that we be allowed to take care of our own in our own way, as through Alms and Brotherly Love as has always been our custom and has been sufficient to this day.

Several years past, Workmans Compensation and Unemployment were made compulsory in the state of Pa. Through the assistance of our State men in authority, a bill was introduced to excuse certain religious groups that would meet the requirements, patterned after the 1965 Social Security exemption bill, and it was passed by the State Senate and House with a 100 percent in favor. Can we depend on our Federal House and Senate to do the same?

We thank you honorable men in authority, kindly, and do wish each and every one, the grace and blessing of God in your many tasks ahead.

Mr. MATSUI. Thank you.

We will call, at this time, Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I, too, would like to thank you, Mr. Kinsinger, for the very cogent and comprehensive testimony.

Mr. Kinsinger, when Chairman Mills put this exemption in effect in 1965, you had several lengthy discussions with him in which he stated it was his intention to broaden this to include that which we are now asking for in the future.

I wonder if you would briefly describe that to the committee.

Mr. KINSINGER. Yes, Mr. Mills explained. At that time, I might state, we did not have as many employees. There were more self-employed Amish people. But through the times and price of high-priced farms, we have more self-employed people than we did at that time. However, he stated, let us see how this 1965 law works and if it works, OK, we will certainly follow it through for the self-employed.

Mr. SCHULZE. How do the Amish take care of emergency situations, so the committee could have some assurance that those in need would be taken care of? Can you give us an example?

Mr. KINSINGER. Not only through hospitals, but sickness and fire or any mishap which they may have, including hospitals or doctor bills, if the amount is too much for one person, his home church will also step in and help.

If the amount comes up to $40,000, $50,000, or $60,000, there are neighboring churches which are glad to help, and even neighboring States will step in and help if the need is present.

Mr. SCHULZE. Thank you, Mr. Kinsinger and Mr. Chairman. I hope that the committee would seriously and affirmatively act upon this request.

Mr. MATSUI. Thank you, Mr. Schulze.

Mr. Slaybaugh, in your testimony, you indicated that you would like to see the local and State government workers have an opportunity, that earn social security at this time, to opt out, perhaps, by referendum vote, is it my understanding that once that vote occurs, if they opt to stay in, then for an indefinite period thereafter they would be in and you people would not have any objections thereafter?

Mr. SLAYBAUGH. That is right. I would want to say one thing. What we are advocating is that if an employer says, "Let's opt out," then the employees would be forced to have a referendum vote.

Once that vote was taken then it would be irrevocable.

Mr. MATSUI. Wouldn't that still pose constitutional questions for us, because any employee would not necessarily be bound by the Government's action, and therefore, they could file suit, I would imagine.

How would we create a situation where we could bind future employees or current employees in the local and State government forever so that action wouldn't be a problem for us?

Mr. SLAYBAUGH. The only way I could think would be to impose a total tax on the employee and not the employer.

Mr. MATSUI. OK. Thank you.

I would like to thank the ladies and gentlemen of this panel for their testimony. We appreciate very much your being here. Thank you.

At this time, we are going to go off the list of witnesses for a moment.

Yesterday, members of the Social Security Subcommittee requested the testimony of Mr. Hustead, who is an actuary for the Hay Associates. We would, at this time, call him to testify.

Mr. Hustead.

STATEMENT OF EDWIN C. HUSTEAD, DIRECTOR, ACTUARIAL CONSULTING SERVICES, WASHINGTON OFFICE OF THE HAY GROUP

Mr. HUSTEAD. Thank you, Mr. Chairman.

I am pleased to appear before the committee to discuss the financing of the civil service retirement system. I was chief actuary of the civil service retirement system for 7 years. In that capacity, and through a number of projects in my current position as director of actuarial consulting services for the Washington office of the Hay Group, I am very familiar with the financing aspects of the civil service retirement system.

I have, given limited notice, just managed to prepare a brief statement. I will be happy to answer any questions based on that.

The impact of Federal retirement systems on the economy is simply the amount of money brought in from outside the Federal Government less the amount paid out. For instance, in the civil service retirement system, only the employee contributions, the annuities and the refunds paid to former employees affect the budget deficit. All employer contributions, as well as the interest on the fund, are intergovernmental transfers. As such, they have no impact on the budget deficit.

If, in fiscal 1983, the CSR fund receives $5 billion in contributions from employees and pays $20 billion in benefits to annuitants, the deficit associated with the CSR system will be $15 million.

If the Government contributes $1 billion or $100 billion, or nothing, the net budget effect is still the $15 billion from sources outside the Government.

The funding method for the current civil service retirement system was set in law in 1969. If the funding had not been strengthened, then the fund would have run dry in the 1970's. Under the current law, all reasonable projections show that the CSR fund will be sufficient to pay benefits for the next 100 years.

There is one important caveat to the sufficiency of the civil service retirement system funding. If the system is closed to new employees, the fund will eventually decline and hit zero in about 20 to 25 years, although the benefits will be paid for over 75 years.

This will happen, for instance, if new Federal employees are covered by social security and a totally separate retirement system. In this event, the Congress should consider accelerating the funding of the retirement system so that it will always be sufficient to pay benefits. This would not be an added cost but a necessary escalation of Government payments to meet the existing cost.

According to a study we participated in last year, the unfunded liability of the civil service retirement system was $538 billion.

This liability would not have increased or decreased one cent if the system has been closed as of the valuation date.

Under current law, the first year's Government payment would have been $21 billion. Using one of many possible accelerated funding schedules, the first year's payment would have been $29 billion. Under this schedule, payments would have been higher than the current law for 40 years but, then, lower than current law after 40 years.

The various funding schedules are analogous to different ways of buying a house. A $100,000 house can be paid for by $100,000 today, or $13,500 a year for 30 years or, if the banks would allow, $12,000 a year forever. Over any given period, the total of these payments will differ but the house will still be worth $100,000 today, no more or no less.

Thank you.

Mr. MATSUI. Thank you, Mr. Hustead.

I would like to ask you just one question. You said the deficit today, that is the unfunded liability, would be approximately $538 billion plus now, because we are in another fiscal year, if we decided to close the system.

Yesterday, I asked one of the gentlemen who spoke what the unfunded liability would be 10 years from now, if we had levels of benefits under current economic assumptions.

What, in your opinion, would that deficit be 10 years from now if we decided to close the system as of this date in 1993?

Mr. HUSTEAD. It would probably be in the range of about $600 billion if you did not change the financing schedule.

Mr. MATSUI. The Federal employee groups have indicated that they feel the current deficit or unfunded liability in the system as of today is about $180 million. Have you had an opportunity to review their statistics?

Mr. HUSTEAD. I think they are probably using the static unfunded liability. That is the Office of Personnel Management under law makes two projections. The first is called static. It considers only what the current benefits are, not what they will be in the future due to pay increases or cost of living increases.

Under that, I believe the unfunded is about $185 billion.

Mr. MATSUI. I see.

Mr. HUSTEAD. Under dynamic, where you consider all of the possible events, it is more in the neighborhood of $500 billion.

Mr. MATSUI. Thank you.

Mr. Archer?

Mr. ARCHER. Mr. Hustead, I want to thank you for coming and testifying before us on such short notice. We appreciate having you here. We had quite a dichotomy in the viewpoint of witnesses before this committee yesterday.

We were told that Mr. Scheiber, who had one approach and one set of views, and the representatives of the employee's organization had both been dealing with you in reaching their numbers, and there was a tremendous divergence between their comments here.

I wondered if you might be able to explain to us what in your view is the reason for that divergence, and, if possible, which of those witnesses was correct?

Mr. **Hustead**. Well, they are probably all correct. It is a matter of focus. If you look first at the—let me try not to get too much into the figures, but as much as need be. If we look first at the social security system by itself, the Reform Commission has estimated that it will be about $1 billion richer in the next year, due to covering Federal employees and nonprofit organizations.

Now, most of that money therefore will come from Federal employees and from the Federal Government. Federal employees will pay about $400 million and the Government will match that.

So the social security system will be better off. The civil service retirement system, if you take no other action than to say new employees will not go into civil service retirement, they will only be covered by social security, will be less rich next year by an amount of $900 million, because the employees, new employees and agencies will no longer be paying for their benefits in civil service retirement.

In an overall budget aspect, and I think that is one important focus, the real effect is how much more or less are Federal employees going to pay in social security than they are now paying into civil service?

Since those two contributions are about the same, it is a very negligible difference. The deficit will be about $50 million more, if new Federal employees are covered by social security.

So the set of figures that says the total effect of covering new Federal employees by social security and taking them out of civil service next year in the total budget context shows almost no impact, and does help to increase the financing of social security.

Now, the next——

Mr. **Archer**. May I interject at this point that I don't believe anyone has made a recommendation or proposal that would prevent new Federal employees from having a supplementary Federal retirement system in addition to social security.

Mr. **Hustead**. That is correct. That was my——

Mr. **Archer**. That is an assumption that is not adequately justified by any proposals before the Congress.

Mr. **Hustead**. No, I was just dealing with the simple situation.

Mr. **Archer**. Right.

Mr. **Hustead**. That was the next point.

Mr. **Archer**. I want to make that clear, lest that appear in some story and the public be misled by that assumption.

Mr. **Hustead**. That is the real question, what you then do with new Federal employees. There are many steps that can be taken. One is to create a supplemental retirement system, totally separate from the current system.

One is to create a special formula for them in the civil service retirement system. If we take the set of circumstances that says new Federal employees will leave civil service retirement and be put in a new supplemental system, then the question is, what happens to the old Federal employees in the existing civil service retirement system?

In that event, I believe Congress will have to accelerate financing of the civil service retirement liability. The liability is, as I said, $538 billion last year under one measure. That would not change 1 penny. It would still be $538 billion.

Mr. Jones, who is going to retire in the year 2000 and draw $500 a month is still going to get that amount of money unless you change that law. However, in order to keep the fund from going bankrupt, we will have to strengthen the financing.

You will have to put more Government dollars in in the next 30 or 40 years in order to support the system until the last person dies. The figures that I provided to some organizations showed what that additional financing cost is in the next 40 years.

In the first place, that only focuses on the civil service fund, not on the total budget. In the second place, it is intergovernmental transfers and does not have any effect on the budget accounts. It is in and out.

So the two sets of data that I believe you are referring to are constant. One set looks at the total budget effect and says there is little or no effect for the next 5 years, no matter how you do it, and the other says there does have to be more Government payment to civil service retirement to finance the existing liability.

Mr. ARCHER. I am trying to figure out how to phrase this question so that I can reduce it to laymen's terms. I would like for you to confirm or deny that the Federal Government's portion of the retirement benefits that come out of the General Treasury are the equivalent of four and a half times what the employee is paying in, and you are nodding——

Mr. HUSTEAD. That is true, right.

Mr. ARCHER. That is accurate. Then this issue we seem to be focusing on right now, it seems to me, is incidental because for every dollar that you get in to help you over the next 20 or 30 years, by adding new employees, you create an obligation of $4.50, which expands and increases the overall unfunded liability in the out years into a bigger and bigger amount.

I wonder if you agree with that?

Mr. HUSTEAD. That is correct. If you—the total cost as employees are earning their benefits every year can be expressed as $4, $4.50 for each dollar the employee puts in. Again, then, you go to what are you going to do with the new Federal employees?

You put them under social security, so you are immediately paying $1 for each $1 the employee pays for social security. If you set up a supplementary retirement system that costs $2 for each $1 the employee puts in, then the total costs have to be less, because $1 of Federal money goes to social security and $2 to the new supplemental system.

You could set up a new supplemental system that costs exactly the same by providing that it will cost $3.50 for every dollar. But when you get down to it, the question is how much are you going to pay for new employees?

The costs for current employees already exists. It is not being changed at all.

Mr. ARCHER. But if we continue with the current system, it seems to me the fallacy of the argument is that you are losing the money of new employees coming into it. That is supposed to be some big benefit to the system. In the long term, you are creating a greater obligation in excess of the extra dollars you get in if you keep the current system.

Ultimately, you have got to make a further decision, it seems to me, and that is how much can the productive sector of our society maintain in the way of expense and costs as this widens over the years?

The statement has been made, and I would like to get your opinion on this, that we shouldn't try to bail out a bad fund with a good fund. That creates the impression that there is great solvency and a responsible program under the Federal retirement fund where social security is insolvent.

If, in fact, the Government is going to have to put 4.5 times what the worker pays in, in order to keep this program afloat over the years, and current law does give them access to the general treasury in unlimited amounts, then perhaps you can say that this is a solvent system, but at what price?

All you have to do is change social security law and say you have access to the General Treasury for whatever it takes, irrespective of what the burden is on productive society 50 years from now; then you can say that is a beautifully funded system, too.

Do you have any comments on that, because that allegation has been made?

Mr. HUSTEAD. I think it is probably incorrect to compare financing of civil service to financing of social security. Social security relies on the next generation to pay for the current generation's retirees. It always has and probably always will.

In civil service retirement the employer has obligated himself to pay the extra costs very similar to what General Motors or any private-sector corporation would do.

Under those conditions, the civil service retirement system is being financed by the Government, and they are paying the additional costs. I think the real question is how much is the Government paying versus how much they would be paying if they had a typical private plan, and is that too much or too little?

Mr. ARCHER. Since you convert it to a private pension plan, is the Government today putting aside the money in a trust fund like private pension plans do for their share of the cost on a current basis?

Mr. HUSTEAD. They are putting it aside, not to the level that the private-sector employers would do. It is really a political compromise between zero funding and full funding, but it is an attempt to full funding that will work out in the long run if you don't close the system.

Mr. ARCHER. Every year, the Federal Government is taking moneys and putting them aside in a trust fund to equal 4.5 times the amount the employee is putting in.

Mr. HUSTEAD. Yes, the fund this year, I believe, is over $100 billion, and it grows by $10 billion or so each year.

Mr. ARCHER. Let me see if I can get you to focus on another disputed point and that is, whether the additional moneys that the Federal Government is paying in, over and above a one-for-one match with the employee, are merely those amounts necesssary to catch up on the funding that was not put into the program in its early years, plus the interest on that amount that was not put in. Is that a fair statement, because that is what some of the witnesses testified to us yesterday?

Mr. **Hustead**. It explains a very little bit of the unfunded liability. Since that has always been a question or a premise, when I was at OPM about 5 years ago, we looked at every possible dollar that the Government could be considered to have paid in that they did not pay in, in particular in the early 1950's several appropriations were cut in half or eliminated and in the early 1920's there was no payment.

If you took all of those dollars and said if the Government had always adequately financed the system, as they did after 1969, and bring those forward with interest, the fund today would be $10 billion greater than it is, and that means the unfunded liability of $538 billion would be $10 billion less, and while $10 billion is a big number, it is a very small portion of the total liability.

Mr. **Archer**. The extra amount that the Federal Government is paying in is not just the repayment of contributions that were not made in the early years plus interest. That confirms basically what Mr. Scheiber told us yesterday, that it was a relatively small amount of money, and yet we see inaccurate information on this in newspaper ads, in television commercials, in radio commercials, in publications spread across this country.

Mr. **Hustead**. No. In fact, while I have heard the statement, I have never heard it quantified, and I have never seen anybody put forth a series of payments that show that if the Government had put in this year by year, here is what it would be today.

We did do that series, and we show there would be no more than $10 billion.

Mr. **Archer**. I don't have any further questions at this time, Mr. Chairman.

Mr. **Matsui**. Thank you, Mr. Archer.

Mr. Jacobs?

Mr. **Jacobs**. I appreciate your prepared statement. A short prepared statement usually means that somebody has something to say. I appreciate that very much.

Directing your attention to the $10 billion figure to which you just adverted, is that also an indexed figure as well as the unpaid matching dollars in the early 1920's, and the deficit or deficiency, you might call the deficiency payments by the U.S. Government in the early 1950's? Are those on the respective dollars of those days or have you indexed those to 1983?

Mr. **Hustead**. We assumed that those contributions would have earned interest to today, so that would be the index.

Mr. **Jacobs**. $10 billion?

Mr. **Hustead**. It would be $10 billion.

Mr. **Jacobs**. Coming at this in a slightly different way, when the Federal Government, the taxpayers generally, began to outstrip the 7-percent matching payment that an employer would pay under social security in the civil service retirement program, did there come a time when the Federal Government by those excess payments had, in fact, paid the $10 billion?

Mr. **Hustead**. Yes.

Mr. **Jacobs**. And has the Federal Government, General Treasury, contribution above the level of the 7-percent mark exceeded that $10 billion by now?

Mr. **Hustead**. Yes.

Mr. **Jacobs**. And by how much?

Mr. **Hustead**. That I am not sure. I don't have that with me.

[The following was subsequently received:]

By 1975, the Federal Government had contributed additional payments, above the matching agency contributions, that totalled over $10 billion including interest. I also note that the total Government payments from the beginning of the civil service retirement system through 1981 totalled $113 billion compared to $52 billion paid by the employees.

Mr. **Jacobs**. I think this is a critical question, because precisely at the time that it equaled the $10 billion, made up for the $10 billion, that would be even-steven as I see it, if you were to compare the employer contribution under social security with the employer contribution under the civil service retirement system, so I think it would be very useful if you would be so kind, or if it is possible, to get that figure, if you could submit it to the committee subsequently. I think we would be very grateful to have it.

Mr. **Hustead**. Yes, that is easy enough to obtain.

Mr. **Jacobs**. Great.

The next question. In this 4½-to-1 or 4-to-1 contribution currently by the Federal Government for civil service retirement, do you project that that will—I am not sure that that is a verb—have you any reason to believe that that ratio will remain static, or will that ratio grow in terms of the greater contribution by the General Treasury in say the next 10, 20, 30 years?

Mr. **Hustead**. There are two ways to measure the cost, and to date they both come out to about a 4-to-1 ratio. If you look at the system and say what would it cost if it were financed totally like a private sector system, the total cost is 36 percent of payroll, and the employee pays 7 percent of pay, so the Government is committing itself to 29 percent, which is a 4-to-1 ratio. The series of financing steps that have taken the Government from matching today's level have brought them to about the same ratio, 4 to 1. Because the financing has been lower in the past, that ratio is going to grow in the future, and it will probably go up to 5 or even 6 to 1, but in the sense that I usually think about it, and in the analysis of the true cost of the system, rather than looking purely at outlays, the 4-to-1 ratio is appropriate now and in the future.

Mr. **Jacobs**. And in the future?

Mr. **Hustead**. Yes.

Mr. **Jacobs**. The final question, Mr. Chairman, in the area that I want to examine. If a newly hired Federal employee pays approximately 7 percent to the social security system in lieu of the same payment to the civil service retirement system, isn't there some question about whether the Federal Government, in order to make up for the 7 percent, will have to pay more from the General Treasury to pay the current benefits to retirees, Federal retirees? If the new employee doesn't pay the 7 percent, doesn't that mean the General Treasury will have to pay the 7 percent to keep current payments to Federal retirees?

Mr. **Hustead**. Well, as Mr. Archer pointed out, that is not the 7 percent. You can't really view it as borrowing that Federal employee's 7 percent, because when he puts his 7 into the current civil service system, the Government eventually has to put in $4 more than that.

Mr. **Jacobs**. Yes, I recognize that. I am not really talking about eventually so much as right now when we are in this deep recession, when the crunch really comes. Next July they tell us we might not have enough money to pay social security checks. I take it that is at least substantial because of the recession. In say, the next 5 years, won't the Federal Government, won't we have to come up with that 7 percent that the new Federal employee does not pay for the current Federal retirees?

Mr. **Hustead**. There are many options there. One, if you close off the system, then the fund will continue to grow for 10 or 15 years, under current civil service retirement financing, and then decline to hit zero about 20 or 25 years from now, so you have no short-term emergency. You do have a long-term problem and should probably take steps today to avoid getting there, and that means the Government should accelerate payments that they would have made later, make them today and over the next 40 years, rather than the next 75 years.

Mr. **Jacobs**. My hunch question, if there is such a thing, is what kind of reserve does the Federal civil service retirement program have at present?

Mr. **Hustead**. It has about—one way of measuring it—about five times the amount it needs to pay next year's annuities, so if you cut off funds entirely, you could pay annuities for 5 years.

Mr. **Jacobs**. I guess that is what makes me curious about why it is a 4-to-1 payment by the Government if there is enough in the trust fund for at least some period of time to pay all or 5 years worth as you say.

Mr. **Hustead**. Well, it is there now because the Government has been putting in more than the employee over the last 13 years.

Mr. **Jacobs**. On the theory that it makes up for what it did not put in before?

Mr. **Hustead**. No, on the theory that you need to build up funds for people while they are working, so that you have the money there when they retire.

Mr. **Jacobs**. So that would be depleted by the absence of the 7 percent that the new employee would not pay to the civil service retirement program. In other words, the reservoir itself would go down just a little bit because of the absence of those payments?

Mr. **Hustead**. Yes.

Mr. **Jacobs**. I am deeply grateful for your testimony. I know you are probably one of the few witnesses who were, in fact, invited and I am very grateful that you could get that one figure to submit. The committee will find it useful.

Mr. **Matsui**. Mr. Thomas?

Mr. **Thomas**. Mr. Chairman, I am sorry I wasn't here at the beginning. I was in the Public Assistance Subcommittee working on problems we have with the various States. I don't know what you have responded to in terms of other questions. If we could back up a little bit for my sake, I would be grateful.

I have heard a number of individuals testify fervently the position of civil service employees. They don't want their good pension program blended with social security, throwing good money after bad. We had it characterized as a sound system, the civil service. We have it characterized as an unsound system. From your vantage point, if we created some kind of an augmented pension program so that we would have new Federal employees relatively unchanged in the overall package, with Government paying four times into the old civil service as we collapse that out, moving people into social security, and paying the augmentation, is that a wise move for Government from dollars and cents and actuarial points of view? If it isn't, how bad is it in terms of the short term and long term. Do you understand my questions?

Mr. **Hustead.** Yes, as you describe it, it has no long-term monetary effect one way or the other. You are simply moving new employees to social security, and creating a supplemental system that costs as much for those employees as the new system now costs for new employees.

Mr. **Jacobs.** From a governmental point of view?

Mr. **Hustead.** From a governmental point of view.

Mr. **Thomas.** How about from an employee point of view?

Mr. **Hustead.** Since the social security contribution and the civil service contribution are about the same, the total effect will then also be about the same from the employees' point of view.

Mr. **Thomas.** Where is the hysteria coming from in terms of allowing us to make this change?

Do you have any idea, from your experience in the civil service system?

Mr. **Hustead.** No. I just know that employees and the unions have been resistant to social security, and I have seen their discussions as to why they oppose putting new employees under social security. I can't say that is very convincing, since you would still keep the old system going.

Mr. **Thomas.** And from a governmental point of view, given the parameters that I indicated, there is no additional cost to do that?

Mr. **Hustead.** No, there is not.

Mr. **Thomas.** Then if we do what is right in terms of an augmentation program for the new Federal hires coming in, there should be no sacrifice on the part of the new Federal employees. It is basically a wash for the employees and a wash for Government in terms of cost?

Mr. **Hustead.** That is correct.

Mr. **Thomas.** Thank you very much.

Mr. **Jacobs.** Just one last question.

Do you know how the formula was arrived at to enrich the trust fund on a ratio of 4 to 1 with employee contributions? Is that in law or is that negotiation with employee organizations?

Mr. **Hustead.** There are two answers to that. One is that benefits that were passed by Congress that became the civil service retirement law promised a system that does cost 36 percent of pay.

Mr. **Jacobs.** You mean in terms of what the benefits are?

Mr. **Hustead.** We will allow people to retire at 55 with 30, and 30 with full indexing, so since the law says these are the benefits, and the law says the employee will only pay 7 percent, by implication the Government pays the 4-to-1 ratio.

The other part of that is in recognition of that long-term commitment, in 1969 specific legislation was passed that would actually approriate those amounts over the long run, and so we have implicitly arrived at the 4-to-1 ratio by promising the benefits, and explicitly arrived at it by putting the financing in place that would do that.

Mr. JACOBS. Yes, but actually to pay those benefits in the sense that the social security system pays its obligations, the Government is actually paying more than necessary to pay those benefits currently?

Mr. HUSTEAD. In the sense that the social security system does?

Mr. JACOBS. Yes.

Mr. HUSTEAD. But not in the sense of private sector financing.

Mr. JACOBS. I understand what you are saying, but it still isn't the private sector.

Mr. HUSTEAD. Right.

Mr. JACOBS. It is the U.S. Government. Do you accept the figure that United States News issued, the feature story, do you accept the figure, as I recall, of 1.3 million Federal retirees to 2.8 million Federal employees?

Mr. HUSTEAD. That is approximately the ratio.

Mr. JACOBS. Since it—that means under social security it is something like 3-to-1 workers to retirees, and under the Federal system it is something that is just a little more than 2 to 1, or where the social security system expects to be by the year 2020 or 2025?

Mr. HUSTEAD. That is correct.

Mr. JACOBS. Now, how would you explain the disparity between those ratios on the one hand and social security on the other in the Federal civil service retirement program?

Mr. HUSTEAD. First of all, let me say that eventual ratio will be about 2 million annuitants for 2.8 million workers.

Mr. JACOBS. That is about 1.4 to 1.

Mr. HUSTEAD. It will be even greater than it is now.

Mr. JACOBS. Yes.

Mr. HUSTEAD. The reason that the ratio is larger and will become larger than social security is largely because of the early retirement provision, which allows people to retire at 55 and 30 or 60 and 20.

Mr. JACOBS. The Federal Government really has a system that pays retirement benefits to people who are not retired, doesn't it?

Mr. HUSTEAD. That is an opinion. Many of them are retired.

Mr. JACOBS. What is your definition of the term "retiree"?

Mr. HUSTEAD. I think many of them are still working. I don't remember any specific figures, but many of the people age 55 are retired and drawing only that as annuity.

Mr. JACOBS. In many cases these are switch benefits rather than retirement benefits, switch jobs benefits, aren't they? They go out of the Federal service after 20 or 30 years, you go into another job, and upon the happening of that, a retirement benefit is paid. Maybe we ought to call it a switch benefit, switching jobs. Isn't that really the effect of it in many cases?

Mr. HUSTEAD. For those that still work, yes.

Mr. JACOBS. They were lamenting last year, I guess, the $50,000 cap on Federal salaries, as I recall, and some people were saying, well, we are losing some of our best people in the Federal service to the private sector, because the private sector can compete to compensate more, but this system in effect finances the competition of the Federal Government, as I see it.

In other words, if a fellow is making $50,000 a year, which by the way puts him in the highest 7 percent, meaning 93 percent of the American citizens make less, but if a fellow is making $50,000 or a woman is making $50,000 a year with the Federal Government and "retires" and takes a job, let's say get's a $20,000 pension right away, retirement benefits, and the private sector can pay $33,000, that individual automatically is ahead, $33,000 ahead of the compensation in the private area being financed by the Government complaining about the competition that takes way the employment. Do you think that is good policy?

Mr. HUSTEAD. I am not really that sure of that policy.

Mr. JACOBS. Mr. Thomas?

Mr. THOMAS. One quick question, Mr. Hustead. In your position as the chief actuary for the civil service retirement system, did you ever analyze various projects involved in increasing the age for the civil service retirement system on comparable year-leisure year relationships to earlier years? Was there ever any kind of a study?

Mr. HUSTEAD. I don't remember specifically doing that.

Mr. THOMAS. In your position as a professional actuary, have you ever examined the ages of retirement in the civil service just on your own time, and compared them to earlier periods in terms of whether or not there ought to be an adjustment eventually in that system?

Mr. HUSTEAD. Well, I do remember that the average age retirement is around 60, and that it has stayed very constant for the last 6 or 7 years. I assume that you could apply the same theory to civil service that has been discussed for social security, and that is to eventually raise the retirement age on the theory that people live longer after retirement. I have never done any detailed analysis of that.

Mr. THOMAS. Thank you.

Mr. JACOBS. Thank you very much for very solid testimony. We are grateful to you for it.

Mr. HUSTEAD. Thank you.

Mr. JACOBS. Our next panel consists of first of all Betty Skaggs, president, Texas Nurses' Association; Dr. Mary Gray, Women's Equity Action League; Dr. Burton, National President of Federally Employed Women; Shirley Sandage, executive director of the Older Women's League; Connie Mallett, president of Parents Without Partners, Inc.; and Phyllis H. Fineshriber, who respresents the Woman's National Democratic Club.

The witnesses are instructed that their statements will be accepted, their formal statements will be accepted for the record. We do operate under the 5-minute rule for obvious reasons, and anyone who chooses to be more consistent will be permitted to do that.

Dr. Gray, you are on.

STATEMENT OF DR. MARY GRAY, NATIONAL PRESIDENT, WOMEN'S EQUITY ACTION LEAGUE

Dr. GRAY. I am pleased to be here today representing the views of the Women's Equity Action League known as WEAL.

The solvency of social security is critical to women; women and children are almost two-thirds of all social security recipients. But few people realize this. In fact they think that the majority of elderly social security recipients are retired white males who enjoy good health, have other sources of income, and a full worklife behind them. Like the photograph of the elderly white male chemist at work in his lab—a photograph which appeared on all three volumes of the final report of the 1981 White House Conference on Aging, this portrait ignores the problems of those who face limited options throughout their lives because of sex or race.

Women receive social security benefits as workers, spouses and survivors. In all three categories, their benefits are very low. As low as women's benefits are, they are often the primary or sole source of income for them. For most women a history of low or no earnings works against building a nest egg to supplement meager social security benefits. In addition, few women receive pensions. The median annual income for all women over age 65 from all sources—that is, earnings, interest from assets, pension, and social security—was only $4,757 as compared to $8,173 for men.

It is against this economic scenario I have described that WEAL measures the recommendations of the National Commission on Social Security Reform. In commenting on the Commission's recommendations, it is easy to vacillate between viewing them as a glass half empty or a glass half full. Clearly, the Commission could have recommended fundamental changes which would further reduce women's already low benefits. Instead, the Commission's recomendation attempts to produce a compromise that divides the financing burden somewhat fairly between various categories of workers and beneficiaries. To a great extent this was accomplished. I will comment on only a few of the recommendations which especially impact women.

In light of their poverty, the most problemmatic recommendations for elderly women is the proposed 6 months COLA freeze. We have several reservations about it, and find it acceptable only as an alternative to even worse measures.

WEAL supports increasing the tax on the self-employed, but suggests a refundable tax credit for 50 percent of the total tax paid instead of a business reduction. This would help entrepreneuers at the low end of the earnings scale, most of whom are women.

The Commission's recommendation is to tax 50 percent of social security benefits by adding it to adjusted gross income—excluding social security benefits—for individuals with incomes over $20,000 and couples with incomes over $25,000. This will not in general hurt elderly women, although it provides another example of a "marriage tax" which WEAL opposes as it does any marriage tax. WEAL prefers accelerating schedule payroll tax increases to alternative recommendations of reducing replacement rates or cutting benefits in other ways.

The proposal to extend mandatory social security coverage to all Federal employees would benefit women. The present civil service retirement system provides inadequate protection for workers' spouses and survivors, the majority of whom are women.

The Commission's recommendations propose small, low-cost changes that would improve the status of some women under the social security system. No comprehensive changes were suggested to recognize marriage as a partnership or to reflect the changing roles of women in society. For example, provision could be made for homemaker contributions and credits, and the fact that married women who work frequently end up deriving no benefit whatsoever from their contributions because their benefits as spouses exceed those earned in their own right could be remedied. We think fundamental changes are needed, and must come eventually.

In closing, I should like to reiterate WEAL's concern that the Commission recommended a 6-month COLA freeze, and, in addition, make it completely clear that WEAL would vigorously oppose any financing recommendations that would have the effect of further reducing benefits for recipients, the majority of whom are women already receiving low social security benefits.

Thank you.

[The prepared statement follows:]

STATEMENT OF DR. MARY GRAY, NATIONAL PRESIDENT, WOMEN'S EQUITY ACTION LEAGUE (WEAL)

Representative Pickle, members of the committee, I am pleased to be here today representing the views of the Women's Equity Action League (known as WEAL).

Founded in 1968, WEAL is a national nonprofit organization specializing in women's economic issues through research, education projects, the support of litigation, and legislative advocacy. We commend the committee for recognizing that the testimony of women's groups is critical to any discussion of the solvency of social security. After all, women have so much at stake. Women and children are almost two-thirds of all social security recipients.

But few people realize this. In fact, they think that the majority of elderly social security recipients are retired white males who enjoy good health, have other sources of income and a full work-life behind them. Like the photograph of the elderly white male chemist at work in his lab—a photograph which appeared on all three volumes of the final report of the 1981 White House conference on aging, this portrait ignores the problems of those who face limited options throughout their lives because of sex or race. Even a 1981 New York Times article, whose purpose was to show that the elderly are preceived to be more desperate than they really are, admitted as an aside in the last paragraph that within the over age 65 population, there are four groups who report living a miserable, dismal existence: blacks, Hispanics, those with incomes under $10,000—and women.[1] Even excluding overlap with the first three categories, women are 60 percent of the elderly polulation and 60 percent of elderly social security beneficiaries.

WOMEN AS BENEFICIARIES

Women receive social security benefits as workers, spouses and survivors under the social security system. In all three categories, their benefits are very low. In April 1982, the average benefit for a retired woman worker was $335 as compared to $432 for men; spouses average $196, and widows received $351. In general, women's low social security benefits can be attributed to low wages—the effects of a lifetime of discrimination in education and employment, policies that average zeroes into earnings records for time spent out of the paid work force in homemaking responsibilities, and provisions that treat divorced women and elderly widows inadequately. Actuarial reductions for taking benefits before age 65 also play a part in lowering women's monthly checks.

As low as women's benefits are, they are often the primary or sole source of income for them. For most women, a history of low or no earnings works against building a nest egg to supplement meager Social Security benefits. In addition, few women receive pensions, either as workers or as survivors—and when they do, the amounts are small. Only 10 percent of women age 65 and older received benefits from private pension plans in 1980, as compared to 27 percent of men over age 65. Women received a median income of only $1,400 from private pension plans based either on their own work experience or as survivors or working spouses. For men, the median income was $3,000. The median annual income for all women over age 65 from all sources (i.e., earnings, interest from assets, pensions and social security) was only $4,757 as compared to $8,173 for men.

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[1] Binstock, Robert H. "Reframing the Agenda of Policies on the Aging"; Proceedings of a Symposium on Income Maintenance; Washington, D.C.: May 17, 1982; p. 17, citing Warren Weaver Jr., "Pollster Detects 'Myths' on Problems of Aged," the New York Times (Nov. 19, 1981), p. A18.

PROVERTY AND ELDERLY WOMEN

It is not surprising then that the proverty rate for women is higher than for the over age 65 population in general—18.6 percent as compared to 15.3 percent. It is also not surprising that the loss of a husband can send an elderly woman more deeply into poverty because the event often signals the end of earnings or pensions. Only 22 percent of aged widows receive retirement benefits other than social security. Only 14 percent of unmarried aged women have earnings of their own, and only 28 percent of those with earnings work full-time.[1]

Of the 16 million women over age 65, only 6.1 million (38 percent) are married; 8.1 million are widowed; 900,600 were never married; and 695,200 are separated or divorced. Of these 9.7 million unmarried women over the age of 65, about 6.7 million (or 42 percent of all women over age 65) live alone or with unrelated adults. (Elderly women, who have an 18 year life expectancy at age 65, seldom remarry and often remain alone for the remainder of their lives.) Over 2 million of these elderly women are officially "poor" (income below $4,359). They comprise 85 percent of all elderly people living alone below the poverty line. Using 125 percent of the poverty level (income below $5,449), the figure for elderly women living alone at or near poverty soars from about 31 percent to 50 percent. For elderly minority women living alone, the statistics are even higher. It is not surprising then that women comprise 73 percent of elderly recipients of supplementary security income (SSI), a form of welfare for the poorest of the elderly, disabled and blind.

RECENT CHANGES IN SOCIAL SECURITY WHICH HAVE HURT WOMEN

Women have already lost much through changes in social security in the 1981 Budget Act. Now, a widow (who is not disabled) cannot receive benefits before age 60 unless she is caring for a child under age 16 (rather than previously, age 18). In addition, social security dependents benefits to children over 18 of retired, deceased and disabled workers are being gradually reduced with total elimination by September 1985. Widowed mothers, most between the ages of 40 and 60, will now have to dip into their own resources to educate their college-age children. Especially burdened will be the high proportion of older black women who raise and educate their grandchildren. Perhaps the most controversial change was the elimination of the minimum social security benefit for future recipients. Workers who worked the required number of years but in sporadic and often low paid work will get benefits bases solely on their wage record in covered employment—no matter how low. Although the media portrayed recipients of the minimum benefits as Government Retirees with high pensions who were double-dipping, the great majority are either widows, or women who may become divorced before the ten-year marriage requirement and therefore not get any spouse benefit, or women who have taken a vow of poverty. Except for the latter group, these women could lose an average of $30 a month; they may be added to the SSI rolls, but only if they apply and pass the income and asset test.

THE COMMISSION'S RECOMMENDATIONS FINANCING CONCERNS

It is against the economic scenario I have described that WEAL measures the recommendations of the national commission on Social Security Reform. In commenting on the commission's recommendations, it is easy to vacillate between viewing them as a glass half-empty or a glass half-full. Clearly, the commission could have recommended fundamental changes which would further reduce women's already low benefits.

The proposal could have reduced benefits by tampering with the weighted formula which helps low earners, or worse, by eliminating the weighted formula. Proposals could have increased the number of computation years, forcing women to have even more zero years averaged into their benefit amounts. They could decreased the numbers of years in the "recency of work" requirement, making it even more difficult for women workers to qualify for disability if they take time out to care for children or an invalid. They could have increased social security taxes in addition to accelerating them—and allowed no refundable tax-credit. This would be especially burdensome to women, who are low earners and therefore need every dollar they earn. They could have dictated even harsher COLA modifications which would have plunged millions of additional elderly women into poverty. The commission did none of these things, and WEAL would have adamantly opposed any of them. Instead the commission's recommendations attempt to produce a compromise that divides the financing burden somewhat fairly between various categories of workers and beneficiaries. To a great extent this was accomplished. I will not comment on every one of the Commission's recommendations, but only those which especially impact women under the system.

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[1] Sherburne, Jane C. "Women and Social Security: Seizing the Moment for Change," The Georgetown Law Journal; Washington, D.C.: Volume 70 No. 6, August 1982; p. 1576, citing "Social Security and the Changing Roles of Men and Women": HEW Report, 1979, p. 173.

SIX MONTH COLA FREEZE

In light of the economic scenario discussed earlier, the most problematic recommendation for elderly women is the proposed six month COLA freeze. One could argue almost convincingly that if a six month freeze were necessary, now is the best time to implement it since the 1982 increase in consumer prices was only 3.9 percent. But even at this rate—and there is no sure way to know it will continue—an elderly widow who receives a monthly social security benefit of $375 would keenly feel a $80 loss over the six month period as she encounters rising—not frozen—cost of health care, fuel and other necessities. Further, if the President's 1984 budget cuts are implemented, increased medicaid and medicare costs, coupled with further reductions for low income energy assistance and cuts in food stamps, will combine to make survival a struggle for low income beneficiaries, most of whom are women. While it is admirable of the commission to consider the "truly needy" and to increase by $30.00 the social security income disregard for the elderly poor who receive SSI, this increase should be extended to other unearned income as well. But neither increase would help people who are poor but not quite poor enough to quality for SSI. For individuals who do not know that they are eligible for this supplement for the poorest among the disabled, blind and elderly, it is especially important that the social security administration send simply worded notices to beneficiaries, translated into as many languages as possible, altering them that they may be eligible for SSI and instructing them on how to apply. In addition the social security administration should follow up these notices with personal outreach to help these individuals through the process.

Still, we feel that if a COLA freeze must come, a moderate alternative, say a three month freeze, would be sufficient. According to the commission's green option book, the three month provision would still save the system over $30 billion by 1989. Another option might be to tap big business for a bit more of their share in the compromise package. Employers could contribute social security taxes on the basis of their total payroll, not just on wages up to $35,700. In 1982 only 11 percent of all earnings in covered employment was above the wage limitation. Coincidentally, this proposal would add about $40 billion into the system—the same amount that would be realized through the six month COLA freeze—and would also reduce substantially the social security deficit estimates to begin around 2015. Few small businesses pay salaries as high as the current limit, but large corporations, which would pay more, could more easily bear the tax increases than the elderly poor could bear the loss of their only safeguard against rising prices.

INCREASING THE TAX ON THE SELF-EMPLOYED FROM 9.35 PERCENT TO THE COMBINED EMPLOYER-EMPLOYEE RATE OF 13.4 PERCENT

WEAL supports this concept but suggests a refundable tax credit for 50 percent of the total tax paid instead of a business deduction. This would help entrepreneurs at the low end of the earnings scale, most of whom are women. Women comprise about one-third of the seven million non-agricultural self-employed, so they would not be disproportionately affected based on their numbers. In terms of income and tax bracket, however, they would be. According to the Census Bureau, the 1981 median earnings for self-employment for women was about $2,600; for men it was $10,500. Under the tax treatment proposed, higher income persons could deduct more than those in lower tax brackets, and hence would have a smaller net tax increse. The tax credit would especially benefit people who are not realizing hefty profits in their small businesses such as catering, typing and childcare services.

TAXATION OF SOCIAL SECURITY BENEFITS

The commission's recommendation is to tax fifty percent of social security benefits by adding it to adjusted gross income (excluding social security benefits) for individuals with income over $20,000 and couples with income over $25,000. This will not in general hurt elderly women. Most unmarried elderly women depend on social security as a primary source of income supplemented by little or no pension benefits or savings. Unmarried elderly women living alone have a median annual income of under $5,000, with fifty percent of such women living at or near poverty.

About six percent of all unrelated individuals over age 65 have annual incomes of over $20,000—including social security benefits. About one percent of single elderly women have earnings over $25,000. While this census bureau data excludes income of single individuals between the ages of 62 and 64, there is no reason to believe that the low income in this age group, most of whom are women, will be affected negatively by the recommendation to tax benefits.

ACCELERATING ALREADY SCHEDULED PAYROLL TAX INCREASES

WEAL prefers this recommendation to alternative recommendations of reducing replacement rates or cutting benefits in other ways. Yet this was not an easy decision to make, even with consideration of the refundable income tax credit provided in 1984. Low earners, the majority of whom are women, pay taxes on all their income, but the highest earners, about eight percent of all earners and mostly men, do not. A woman earning $10,000 annually in 1984 will pay seven percent on her entire income while a man (or less likely, a woman) earning over $35,700 will pay the same percent on his income only up to the $35,700 limit. Despite the weighted benefit formula favoring low earners, the wage limitation on contributions seems unfair. This is especially true because the low earner, possibly the sole support of the family, "loses" more money to taxes each month—money she could have used for food, clothes, and other necessities for her family. The refundable tax credit in 1984 will help, but another one should be provided in 1988 with the addition of the portion of the 1990 tax rate.

In addition, more and more married women are realizing that the monthly taxes they currently pay may buy them a retirement benefit no greater than what they would have received as a spouse who had never paid taxes as a worker. And while these taxes during their work lives are supposed to buy disability coverage for themselves and survivor benefits for their families, married women who take time out for homemaking responsibilities sometimes discover that they do not qualify for disability coverage or survivor protection because of "recency of work" requirements which were not met as a result of taking time out. Despite our reservations based on how current social security taxes impact women, we accept the commission's recommendation to gradually accelerate already scheduled payroll tax increases—with the refundable tax credits.

MANDATORY SOCIAL SECURITY COVERAGE FOR NEWLY HIRED EMPLOYEES OF THE FEDERAL GOVERNMENT

The proposal to extend mandatory social security coverage to all civilian employees would benefit women. The present civil service retirement system (CSR) provides inadequate protection for worker's spouses and survivors, the majority of whom are women. For example, there are no automatic provisions for spouse's benefits under the CSR system and if spouse benefits are elected, the retiree's benefit is reduced. The social security system includes benefits for spouses with no reduction in the worker's benefit. Civil service survivor benefits, which are also optional, only provide the surviving spouse with 55 percent of the retiree's annuity. Surviving spouses at age 65 are eligible for the retiree's full social security benefit. Social security medicare benefits are provided to aged spouses regardless of divorce or widow(er)hood, but the civil service retirement plan requires the surviving spouse to pay large premiums for continued medical coverage.

Under social security, divorced women are guaranteed spouse and survivor benefits if the marriage lasted ten or more years, but divorced spouses of civil service workers lose their survivor benefits and do not retain their annuity as a spouse except under court order. Disability coverage ceases for Federal employees immediately after leaving their jobs in contrast to the "recency of work" test under the social security system. Also, disability benefits are relatively low for Federal employees in low paying jobs who have less than 20 years invested in civil service employement. The majority of such employees are women. In addition, under CSR there is no dependent allowance for disabled workers unless the disability is work-incurred, but under social security, families of disabled workers are eligible for benefits regardless of how the disability came about. While the Commission is recommending limited taxation of social security benefits, at the present time social security benefits are not taxed. Retirement benefits from the civil service system are taxed after the amount contributed by the retiree is exhausted, usually a period of about eighteen months.

The civil service retirement system does contain some advantages. Early retirement is possible for Federal employees after a set number of years of service, where under the social security program early retirement is penalized by reduced benefits. In addition, high salaried employees are likely to receive larger benefits from the CSR plan than they would from social security. It must be remembered, however, that the CSR system was originally designed as a pension program to provide deferred compensation to Federal employees. Social security, on the other hand, provides workers and their families with a basic level of subsistence in the event of retirement, death or disability.

The incorporation of a universal social security system would be beneficial. The additional cash flow from civil service workers' social security taxes would strengthen the social security system. In addition, Federal employees' spouses and survivors would be assured some financial protection in their older years.

EXTENSION OF SOCIAL SECURITY COVERAGE TO ALL EMPLOYEES OF NONPROFIT ORGANIZATIONS

WEAL supports fully the recommendation to mandate social security coverage to nonprofit organizations. WEAL employees are part of the 85 percent of workers already covered, and we feel it is critical to extend coverage to the other 15 percent. Women are over half of the employees in nonprofit membership organizations, museums, galleries and zoos; about 80 percent of library employees, 70 percent of workers in religious organizations and over three-fourth of employees in hospitals. Under current law, employers can provide no social security and offer nothing in its place. Even if a nonprofit organization chooses to provide a private plan to employees, women's work patterns do not fit easily into private pension plan rules. Low wages, low status and short tenure all perpetuate the exclusion of women from private pension plan participation. The following are selected examples of ERISA provisions that seriously affect women's private pension rights.

Most plans require that workers stay with the same employer for ten years before they earn a right to a pension. In most instances, accrued benefits up to the ten-year mark are forfeited upon resignation.

ERISA does not require employers to cover worker under age 25 (under age 30 in nonprofit educational institutions).

ERISA allows the elimination of years of service before age 22 in the computation of pension credits.

ERISA does require coverage for part-time workers with 1,000 hours of annual service. Many part-time workers fall slightly short of this limit.

ERISA established the pension benefit guaranty corporation which insures continued pension benefits when a plan is terminated. Not all plans are covered—professional service corporations with fewer than 26 employees are excluded from this protection.

Social security's portability, weighted benefit formula and inflation proof benefits (except when COLAS are frozen) are better than what private pension plans offer women.

PROVISIONS WHICH MAINLY AFFECT WOMEN

The Commission's recommendations propose small, low-cost changes that would improve the status of some women under the social security system. No comprehensive changes were suggested to recognize marriage as a partnership or to reflect the changing roles of women in society. Women will continue to have no social security credits based on contribution in the home. Women will still earn low benefits as workers not only because they earn low wages but because years spent in homemaking responsibilities will continue to be averaged as zeroes into the benefit computations. Women will continue to get low spouse benefits because the maximum spouse benefit is only 50 percent of a husband's benefit—one-third of the couple's combined amount. Divorced women, increasing in number, will continue to struggle to survive on this spouse retirement benefit—A benefit never meant to support a single person in a separate household. (If she was married for fewer than ten years, she get no spouse benefit.) Married women will continue to pay social security taxes with the knowledge that these taxes may buy them a benefit no greater than what they would receive if they never left home to work for pay. One-earner couples may still get a higher benefit than two-earner couples with the same lifetime earnings. "Recency of work" requirements still may lock working women out of disability benefits or survivor protection if they leave the workforce for homemaking responsibilities. Disability protection for homemakers is still not a reality even though their services are costly to replace. Disabled widows must still wait until age fifty to get benefits. A non-disabled widow still cannot get benefits until she is sixty years old, unless she has a child under sixteen years of age in her care. This means that some widows, without earning skills, can get neither welfare nor social security, yet must survive.

So things are pretty much the same. The poverty of elderly women described earlier in this testimony is inextricably linked to the system in existence before the Commission's deliberations—and it will continue. What improvements will come from the Commission's modest proposals if they are implemented?

The divorced woman mentioned earlier would now be able to get her small spouse benefit at retirement age even if her husband has not yet retired. This will help divorced women who are older than their ex-husbands or whose ex-husbands continue working. The ten year marriage requirement still remains, even though the great majority of divorces take place after fewer than ten years of marriage.

Under current law widows over age 60 will not lose their benefits if they remarry. This provision would now apply to disabled widow(er)s aged 50–59, disabled divorced widow(er)s aged 50–59, and divorced widow(er)s aged 60 and over. The remarriage rate for these women is so low that this proposal would cost the system little and still help some women.

Disabled widow(er)s aged 50–59 would now receive 71.5 percent of their age 65 benefit, instead of only 50 percent of that full benefit as under current law. This benefit change is especially helpful because it applies to all women in this category—even those already on the rolls. A more helpful option for these disabled widows would have been to raise the benefit to 100 percent.

Under current law, a widow who becomes eligible for benefits many years after the death of her husband often gets an extremely low benefit because the benefit was indexed according to price rather than wage increases from the time of her husband's death until the time she receives the benefits. Higher benefits would have been provided if wage increases had been used instead. The commission's proposal is to index these "deferred benefits" by wage increases. Unfortunately, this recommendation comes at a time when prices have been increasing faster than wages. Unless there is a provision to use either prices or wages—whichever produces the higher benefit—we cannot be sure how many elderly widows will be helped.

One recommendation rejected as too costly by the commission would have raised benefits for about one out of five women. The purpose of the recommendation was to improve benefits for women who have combined fairly long careers at low wages with years spent in homemaking responsibilities. It would have increased the number of years countable toward the special minimum benefit and would have allowed credit for up to ten childcare years. A childcare year would have been defined as one in which the worker had a child age six or under and did not earn enough to gain a year of coverage.

WEAL accepts the intent of the commission's recommendations to improve the status of some women under the social security system. The commission's efforts, however, do not address in a comprehensive way the changing roles of women in society or the economic reality of women's lives. This is a goal for the future. One way to accomplish this goal is to provide women with social security protection in their own right, instead of as individuals whose retirement income is dependent on their husband's wage record. This would recognize a woman's contribution to marriage as an economic partnership and would allow her to combine social security credits earned as a homemaker with credits earned in paid employment. In addition, we must be careful not to assume that women's role has been completely transformed and that all women work and will earn adequate Social Security as workers. In 1981, 68 percent of the part-time labor force were women. About 50 percent of all women with pre-school children are not part of the paid labor force. About 40 percent of mothers with children under 18 are not in the labor force. Women are still concentrated in low paying dead end jobs and earn 59 percent of what men do. It will be important to make sure that Congress does not pass a simple cost saving solution to the complex issue of adequacy and equity for women under Social Security. For those who want to balance the budget by cutting Social Security or for those who do not acknowledge the complexity of the problem, the temptation will be great. I would like the subcommittee to know that WEAL is a member of a technical committee which is working with the urban institute to generate data on the potential impact of earnings sharing on various subgroups of women.

RAISING THE RETIREMENT AGE

WEAL is aware that raising the retirement age is not an "official recommendation of the commission's compromise, but we want to express reservations about such a proposal. Raising the retirement age will mean benefit cuts for people who cannot continue to work past age 65.

Raising the retirement age is especially detrimental to women, who already receive low benefits and who would receive even lower benefits under this proposal. The percentage of women workers retiring early and taking reduced benefits for life is increasing. In 1978, 72 percent of women workers who retired took early benefits; in 1981 the figure was 78.6 percent. Currently, the majority of wives and widows of retired workers also are receiving reduced benefits. Women take early benefits despite the fact that this will mean a substantial reduction in their monthly social security checks. In fact, the reduction is more substantial than actuarial considerations mandate. These small checks, especially for millions of elderly unmarried women, are rarely supplemented by earnings or pensions based on their own or their spouse's work. Yet women will continue to need to retire early. They may lack the education, skills, work experience, and contacts needed to get and keep a job until they receive full benefits. They may retire for health reasons or because of obligations to provide health care for an invalid parent, husband or other relative.

It seems odd that many people are against Government-imposed economic sanctions as a way to force businesses and educational institutions to obey equal opportunity laws but are in favor of such sanctions as a way to force elderly people to work longer than they feel they can. Are our priorities mixed up? If we had been committed over the years to routing out pervasive discrimination on the basis of sex, race and age in education and employment, perhaps a greater number of elderly individuals would be retiring later simply because they have good employment opportunities, challenging work, good pay, prestige, etc.—the things that keep the elderly working longer. (That is not to say that less fortunate people do not also choose to continue working past retirement age.) The decision to retire is a personal one and for too many elderly people, especially the disadvantaged, women and minorities, it marks the first time they can exercise real control over their lives—and more important—the remainder of their lives.

Any proposal to raise the age at which workers would receive full retirement benefits would be based on several faulty assumptions: that there is a solid link between living longer and living longer in good health; that those able to work to a later age are welcome in the work force and that most retired elderly supplement their social security benefits by another source of retirement income and therefore can tolerate reduced benefits if they retire early.

It is a mistake to think that the elderly are welcome in the work force and are given credit for their experience, wisdom or skills. Age discrimination is worsening despite the Age Discrimination Act (ADEA). In 1981, the Equal Employment Opportunity Commission reported 76 percent more age discrimination charges than in 1971. Think of how many incidents probably went unreported. Women experience the compounding effects of age and sex discrimination. Older women who try to enter the work force after years in the home often cannot find jobs, particularly in non-traditional occupations which pay well and offer retirement plans. ADEA does not cover age discrimination in access to apprenticeship jobs. While this inequity affects older workers of both sexes, women are more likely than men to postpone employment for homemaking responsibilities and enter the work force later—either by choice or by necessity.

Although statistics tend to indicate that older women find employment faster than older men, this is not the case. Older women seeking jobs often stop actively seeking employment after a short period of time and become discouraged workers. Currently only 8 percent of women over age 65 are in the work force as compared to 18 percent of men.

It is unwise to dictate that people work longer without programs in place to provide training and re-training for available full and part-time jobs, without improved enforcement of the ADEA and other equal opportunity laws, and without a revamped disability program which would provide medicare coverage as well as retirement benefits to people who retire as early as age 62 up to the regular age for receipt of full benefits. At the very least, if the "normal" retirement age is raised, provisions should be made so that the benefits below a certain threshold are not reduced for early retirees.

In closing, I would like to reiterate WEAL's concern that the commission recommended a six-month COLA freeze, and, in addition, make it completely clear that WEAL would vigorously oppose any financing recommendations that would have the effect of further reducing benefits for recipients, the majority of whom are women already receiving low social security benefits.

Mr. JACOBS. The representative of the Parents Without Partners, Ms. Mallett.

STATEMENT OF CONNIE MALLETT, INTERNATIONAL PRESIDENT OF PARENTS WITHOUT PARTNERS, INC.

Ms. MALLETT. Good morning, my name is Connie Mallett and I live in Novi, Mich. I am international president of Parents Without Partners, Inc., a nonprofit, nonsectarian organization of 210,000 single parents in all 50 States and Canada.

We have affiliates in England, Australia, and Germany. Parents Without Partners is the oldest and the largest single parent organization in the world, and is the only national organization for single parents of all types, both men and women, custodial, noncustodial, including separated, divorced, widowed, and the never married. As the representative of this constituency, I am pleased to come before the Ways and Means Committee to urge you to adopt four recommendations made by the Social Security Reform Commission that directly affects many of the 14 million single parents in this country. Parents Without Partners applauds the committee's suggestions.

First, to allow divorced spouses to receive social security benefits on their ex-spouses' earnings record, even when the ex-spouse is not yet claiming his own retirement benefits.

Second, to allow divorced and disabled surviving spouses whose ex-spouses have died to continue to receive benefits after remarriage.

Third, to calculate survivors benefits by wages rather than prices.

Fourth, to improve benefits for disabled surviving spouses. These four suggestions will help single parents, but much more needs to be done. When the Omnibus Reconciliation Act of 1981 cut off or reduced college social security benefits for the children of our widowed members, it seemed that Congress did not care about the single parents of America or their children. We are still concerned with this issue, and we are worried about the many children of widowed parents who had to drop their college plans.

Parents Without Partners is also disappointed that the Commission on Social Security Reform did not make recommedations about earnings sharings or other methods of protecting divorced homemakers. We took heart when we saw that the issue was discussed, and we hope that it will be seriously addressed later. It is an important and serious subject for single parents.

We do not want this to be viewed as a feminist issue, but an issue affecting women who stayed home to raise their children. It is also an issue that reflects how we think about marriage and child rearing in this country. States are beginning to view spouses staying home with their children as contributing equally to marriage. States are beginning to divide pension plans after divorces in order to recognize this contribution. Yet social security, the broadest form of protection for retired citizens, has lagged behind the realities of life in America.

The reality is that with a 50-percent divorce rate, any woman who leaves the work force to care for children will be penalized for having done so if her husband leaves her. The current 50-percent divorced spouse benefit is better than nothing, but it does not combine what the divorced spouse could earn on her own with what she has contributed to the marriage.

We see in Parents Without Partners hundreds upon hundreds of older women who spent 10, 15, 30 years of marriage as full-time homemakers who are left in their middle age to fend for themselves. These women followed the old rules. They were encouraged to stay at home and they worked only if the husband could not support his family. Many of these same women have no choice in the matter of divorce. They have no time left to compile meaningful earnings credits under social security, and no time left to get a pension. The 50-percent spouse benefit is inadequate for divorced spouses. It was also meant to be combined with the 100-percent benefit earned by the worker.

The poet William Ross Wallace once said that the hand that rocks the cradle is the hand that rules the world. What we say is that the hand that rocks the cradle is the hand that loses social security credits and then faces the real possibility of retirement years in poverty.

We urge that Congress put its money where its mouth is, and recognize child rearing as an equal contribution to marriage. We urge that you consider earnings sharings or construct a way that divorced spouses who qualify for the spouse benefit can combine it with credits they earn on their own.

Today we are here, however, to support the Commission's recommendations on social security that would improve the lives of single parents.

First, we support the recommendations that would allow divorced spouses to receive benefits on their ex-spouses' record, even if the ex-spouse is not claiming retirement benefit.

According to the Social Security Administration, 1,675 divorced spouses had their benefits withheld this year because their ex-spouses earned too much. We don't know how many divorced spouses are not able to claim their benefits at all because their ex-spouses never retired. This change would affect very small numbers, but it is an important step toward recognizing that divorced spouse benefits are earned by their recipients, not entirely dependent on a former spouse.

Fahy Baker Low is an employee and a member of Parents Without Partners, and is an example of such a woman. During her 25 years of marriage, she raised two children and assisted her husband with his legal practice. She accumulated no social security credits or personal pension fund. When she was 47 her husband left her. She received a monetary settlement, including a house she cannot sell for 10 years. She received no ongoing alimony that she could rely on when she is no longer able to work. Her ex-husband does not plan to retire. She now works under great pressure and anxiety to build credits for her own record, but it is unlikely she will be able to accumulate enough credits to match what she would receive from the divorced spouse benefit.

In a time of high unemployment, there are many older women struggling, but in vain to gain their 40 quarters of coverage.

This recommendation would put Fahy's mind at rest with the knowledge that she and all others like her will have some income to count on and not have to face poverty in their retirement years.

Second, we support changes that would improve remarriage prospects for surviving divorced spouses, disabled widows and widowers and disabled surviving divorced spouses. At present, widow and widowers over the age of 60 can remarry and keep their survivors benefits, which can be substantially higher than the 50-percent spouse benefit. With this recommendation, other types of survivors can do the same when they are eligible for benefits. This seems only fair and reasonable.

This recommendation would affect approximately 34,538 divorced surviving spouses, 2,381 surviving disabled divorced spouses, and 46,220 surviving disabled widows and widowers.

Of course, we would prefer that all divorced spouses have this option, should their benefits be higher than spouses benefits from the new marriage. Only 45,582 women receive such benefits today. To distinguish between survivors and the divorced is punitive, in that all money provisions are made in only 14 percent of all cases, and less than two-thirds of all alimony awards are ever paid. It is pointless to assume that because an ex-spouse is living, the older divorced woman has a means of support.

Third, we are glad to see that benefits for survivors would be calculated by wages rather than prices. We understand and the statistics show that wages between 1970 and 1982 increased about 5 percent more than did prices. We have reservations, however, in regard to those whose spouses may have died during a period of high inflation, and who qualify for benefits before that period ends. We fear that these people may get hurt, and we would like them to have an option to take whichever benefit is higher, a choice between wages or prices.

Finally, we are glad to see an improvement in benefits for surviving spouses who are disabled. Disability qualifications for spouses are strict, and it is punitive to restrict their benefits simply because of age, especially when we know that 20 percent of them are receiving supplemental security income. Their beneficiaries would have been supported by their dead spouses. Now they must rely on benefits their dead spouses earned for them, not a free handout from the Government.

We are, however, concerned that disabled divorced spouses between the ages of 50 and 59 can receive nothing on their ex-spouses' record. In their own right they must have worked for 7 years to quality for disability benefits.

In the future, we hope you will keep single parents in mind. We are a growing special interest group, with the responsibility for raising 20 percent of the Nation's children. Please help us bring them to a happy, healthy and secure maturity. Plus, also acknowledge single parents and give them credit for the job they do and do it well.

We thank you for your consideration.

Mr. JACOBS. Thank you.

Let the record show that Mrs. Thompson will be representing the Federally Employed Women in lieu of Ms. Burton, and let me again admonish the witnesses that we are operating under the 5-minute rule, out of fairness to the witnesses.

Mrs. Thompson?

STATEMENT OF DORIS THOMPSON, GOVERNMENT LIAISON, FEDERALLY EMPLOYED WOMEN, INC., REPRESENTING DELORES BURTON, NATIONAL PRESIDENT

Ms. THOMPSON. Mr. Chairman, it is both a privilege and pleasure to present the views of Federally Employed Women [FEW] before the subcommittee today.

I am Doris Thompson, Government Liaison, representing De Burton, national president of FEW, who is not able to be here today. Our organization represents over 800,000 women in the Federal Government throughout the United States and overseas.

Today, representing concerned citizens who comprise about one-third of the Federal work force, I can say unequivocally that the National Commission recommendations and the subcommittee's work are of utmost importance to us, and so, we appreciate this opportunity to inform you, Mr. Chairman, and your colleagues, about our special concerns.

We, too, recognize that July 1 is uncomfortably close. Yet, the complexity of the issues covered by the Commission's recommendations calls for Congress making a careful assessment and weighing as wide an array of options as possible.

Some have praised the Commission for spreading sacrifice equitably. Sacrifice for all is not necessarily the solution to be sought, especially since it seems that it is always the same all that is sacrificed.

We would rather see a legislative package designed to respond to the immediate crisis that is not only rational and pragmatic, but also humane and compassionate.

We agree with those who have spoken out here with sensitivity about the plight of many in this Nation who are barely subsisting under the present social security benefits. We all know, too, that scores of those who live at the poverty level are women, poor, elderly, and black.

Women all too often become invisible when policymakers are seduced by the appeal of rational arguments. Rational justifications, not unassailable, have been given to leaving the women's issue for another day. Women must not become the invisible group in your deliberations.

Despite our global concerns, our reason for being here today focuses on one aspect of the proposed changes, that is, the proposal requiring mandatory coverage of newly hired civilian employees of the Federal Government as of January 1, 1984.

FEW is adamantly opposed to mandatory universal coverage for Federal, postal, and State and local public employees under social security.

Mr. Chairman, there are three major issues we want to discuss. The first issue relates to moving beyond the admission that the women's issue is important and this is not the time to address it.

We say this is the time to address it, particularly in the context of proposed universal coverage to begin to understand why mandatory universal coverage will ultimately have a disproportionate negative impact on women in the Federal service we need to consider where women are in the system.

We have included statistical data in our testimony for the record. It shows that women are clustered in the lower general scheduled GS grades, just as women in the private sector are the low wage earners in the system. Eighty-five percent of the Federal women workers are in grades GS-1 to 9.

The average grade is about GS-6, and the average salary is about $15,000. As in the private sector, a high percentage of these women are single heads of household. While the urgent priority is refinancing the system to achieve solvency in the short term, that will only serve to compound the inequities that exist.

What we are really saying then to women in the Federal service and in the Nation is that the big part of the cost of saving the social security system is the disproportionate price women will continue to pay.

We support those who have said that the structural reforms proposed to make the system solvent fall into two basic areas, additional revenue and reduced benefits, and we support the view that the trade-off for most of the reforms will mean a reduction of benefits with a disproportionate impact on women.

The second issue is that the proposal for universal coverage lacks clarity and definition. It is unthinkable there is no plan for this major change. The change will affect not only the newly hired who would be covered in 1984, but over 2.4 million workers under the present retirement system and those already in retirement.

We strongly support those who have said earlier in the Commission report and these hearings, that before coverage of Federal workers is mandated, a separate pension program to supplement social security must be in place.

We cannot believe that Congress will mandate coverage if we do not know how or whether the retirement benefits of the present and future employees will be protected and guaranteed.

The third issue that is very disturbing is the question of the funding of the present civil service retirement system as new employees are covered by social security. It is incredible that this question remains, and was not addressed in the report.

Previous speakers before these hearings have expressed grave concerns about the long-term impact of universal coverage on the social security system 30 to 40 years in the future. We support those concerns and the appeals urging you, Mr. Chairman, and your colleagues, to see that the operations are not only successful, but that the patients survive.

Let me say in closing that we brought you our concerns about: One, universal coverage vis-a-vis the impact on the civil service retirement system and the social security system itself.

Two, universal coverage vis-a-vis continuing, even intensifying the inequities to women now and in the future.

Three, brushing aside the women's issue. We say these are serious problems. The solution does not elude us, but problems have to be confronted and equitable remedies prescribed.

We want true equity for all. We want the solvency of the social security system and the civil service retirement system. We are confident that solutions can be reached that will be in all our best interests as citizens, workers, retirees, and taxpayers.

Mr. Chairman, I want to again thank you and the members of the subcommittee for giving us this opportunity to express the views of FEW on these important issues.

Chairman **Pickle**. We thank you, Ms. Thompson and appreciate your testimony. The entire statement will be made part of the record.

[The prepared statement follows:]

STATEMENT OF FEDERALLY EMPLOYED WOMEN, INC.

Mr. Chairman, it is both a privilege and a pleasure to present the views of Federally Employed Women, Inc. (F.E.W.) before the subcommittee today. I am De Burton, national president of F.E.W. Our organization represents over 800,000 women in the Federal Government throughout the United States and overseas. F.E.W. was founded in 1968 for the purpose of upgrading the status of women in the Federal sector. It is a private, non-profit, non-partisan organization and its charter is the same as that of the Federal women's program, a special emphasis program established by an executive order in 1967. The founders of F.E.W. believed that the organization could serve as a constructive tension agent to facilitate progress for women in the Federal Government.

Representing concerned citizens who comprise about one-third of the Federal workforce, I can say, unequivocally, that the national commission recommendations and the subcommittee's work are of utmost importance to us. And, so we do appreciate this opportunity to inform you, Mr. Chairman, and your colleagues about some of our special concerns. We have followed with interest the dialogue, debate and analyses related to the refinancing of social security. We commend all who are presently involved and those who have worked hard in the past to resolve the highly complex issues related to this critical national problem. We, too, recognize that July 1 is uncomfortably close. Yet the complexity of the issues covered by the commission's recommendations calls for Congress making a careful assessment and weighing as wide an array of options as possible.

Some have praised the commission for spreading sacrifice equitably. "Sacrifice for all" is not necessarily the solution to be sought. Especially since it seems it is always the same "all" that is sacrificed. We would rather see a legislative package designed to respond to the immediate crisis that is not only rational and pragmatic but also humane and compassionate. We agree with those who have spoken out here with sensitivity about the plight of many in this Nation who are barely subsisting under the present social security benefits. We all know, too, that scores of those who live at the poverty level, are women, poor, elderly and black.

60 percent of all adult recipients of social security benefits are women.

72 percent of the elderly poor are women. Older women are the fastest growing poverty group in the Nation.

60 percent of single women over 65 depend on social security benefits as their sole source of income.

Women, typically are low wage earners and so receive low benefits.

They must not become the invisible group in your deliberations.

As you can see we are very interested in how changes in the social security system will effect most beneficiaries. However, our reason for being here today focuses on one aspect of the proposed changes. That is the proposal requiring mandatory coverage or newly hired civilian employees of the federal government, as of January 1, 1984. F.E.W. is adamantly opposed to mandatory universal coverage for federal, postal and state/local public employees under social security. In our opposition to this proposal we are on record supporting and joining in the resolution presented by the fund for assuring an independent retirement (fair) to the members of the 97th congress (see attachment 1).

Mr. Chairman, there are three major issues we want to discuss. We urge you and your colleagues to explore these fully in your assessment. The first issue relates to moving beyond the admission that the "women's issue is important and this is not the time to address it." We say this is the time to address it, particularly in the context of proposed universal coverage. To begin to understand why mandatory universal coverage will untimately have a disproportionate negative impact on women in the federal service, we need to consider where women are in the system. We are including the following five pages of data from the most recent office of personnel management report on equal employment statistics, as of November 1980. Current data is not available for release to the public at this time. If we can secure the current information by the time our testimony is included in the Congressional Record we will amend the figures we have used. The data will show that women are clustered in the lower general schedule (GS) grades and, just as women in the private sector, are the low wage earners in the system. 85 percent of the federal women workers are in grades GS-1—9; the average grade is about GS-6 and the average salary is about $15,000. As in the private sector a high percentage of these women are single heads of household.

Table 1—Number and Percent of Full-time Federal Employees by Pay System, General Schedule and Equivalent Grade Grouping, Sex and Minority/Non-minority, November 1980

			Sex				Minority/Non-minority			
	Total Employees		Number		Percent		Number		Percent	
Pay System/Grade	Number	Percent	Men	Women	Men	Women	Minority	Non-minority	Minority	Non-minority
All Pay System	2,438,906	100.0	1,637,342	801,564	100.0	100.0	574,006	1,864,900	100.0	100.0
GS and equivalent Pay Systems	1,455,528	59.7	795,478	660,050	48.6	82.3	302,622	1,152,906	52.7	61.8
GS 1-4	273,939	11.2	62,646	211,293	3.8	26.4	90,187	183,752	15.7	9.9
GS 5-8	444,991	18.2	155,664	289,327	9.5	36.1	116,805	328,186	20.3	17.6
GS 9-11	353,587	14.5	236,158	117,429	14.4	14.6	58,260	295,327	10.1	15.8
GS 12-13	284,545	11.7	249,138	35,407	15.2	4.4	29,725	254,820	5.2	13.7
GS 14-15	98,466	4.0	91,872	6,594	5.6	0.8	7,645	90,821	1.3	4.9
Executives	8,419	0.3	7,901	518	0.5	0.1	592	7,827	0.1	0.4
Wage Systems	440,881	18.1	403,010	37,871	24.6	4.7	131,128	309,753	22.8	16.6
Nonsupervisory	326,720	13.4	296,060	30,660	18.1	3.8	105,600	221,120	18.4	11.9
Leader	11,466	0.5	10,677	787	0.7	0.1	3,671	7,795	0.6	0.4
Supervisory	38,140	1.6	36,834	1,306	2.2	0.2	8,773	29,367	1.5	1.6
Other Wage Systems	64,555	2.6	59,437	5,118	3.6	0.6	13,084	51,471	2.3	2.8
Postal Pay Systems	512,636	21.0	419,348	93,288	25.6	11.6	136,507	376,129	23.8	20.2
Other Pay Systems	21,442	0.9	11,605	9,837	0.7	1.2	3,157	18,285	0.5	1.0

HIGHLIGHTS

Composition of the Federal Work Forces (Appendix I)

By Sex:

	Total	Percent
All Full-time Employees	2,438,906	100.0%
Men	1,637,342	67.1%
Women	801,564	32.9%

By Minority (And Non-minority) Group Designations and Sex:

	Total	Men	Women
All Full-time Employees (2,438,906)	100.0%	67.1%	32.9%
Non-Minority (1,864,900)	76.5	53.6	22.9
Minority (574,006)	23.5	13.6	10.0
Negro/Black (414,345)	17.0	9.1	7.9
Hispanic (100,387)	4.1	3.0	1.1
Native American (28,433)	1.2	0.6	0.5
Oriental American (30,841)	1.3	0.8	0.4

Percent Distribution by Minority Designations:

	Total	Men	Women
Minority (574,006)	100.0%	57.7%	42.3%
Negro/Black (414,345)	72.2	38.7	33.5
Hispanic (100,387)	17.5	12.8	4.7
Native American (28,433)	4.9	2.7	2.2
Oriental American (30,841)	5.4	3.5	1.9

By Selected Pay Systems and Sex:

	Total	Men	Women
All Pay Systems (2,438,906)	100.0%	67.1%	32.9%
GS and Equivalent (1,455,528)	59.7	32.6	27.1
Executive (8,419)	0.3	0.3	*
Wage Pay Systems (440,881)	18.1	16.5	1.6
Other Pay Systems (21,442)	0.9	0.5	0.4
Postal Pay Systems (512,636)	21.0	17.2	3.8

*Less than 0.1 percent.

By Selected Pay Systems Minority (and Non-minority) Group Designations:

	Total	Minority	Non-minority
All Pay Systems (2,438,906)	100.0%	23.5%	76.5%
GS and Equivalent (1,455,528)	59.7	12.4	47.3
Executive (8,419)	0.3	*	0.3
Wage Pay Systems (440,881)	18.1	5.4	12.7
Other Pay Systems (21,442)	0.9	0.1	0.8
Postal Pay Systems (512,636)	21.0	5.6	15.4

*Less than 0.1 percent.

Percentage Distribution for Minority (and Non-minority) Groups and Sex by Office of Personnel Management Regions:

	Non-Minority		Minority	
	Men	Women	Men	Women
All Regions Summary (2,080,104)	55.6%	22.2%	13.5%	8.7%
Southeast (383,343)	59.6	22.8	11.3	6.2
New England (97,193)	71.7	22.2	3.8	2.3
Great Lakes (290,629)	54.5	22.9	11.2	11.4
Southwest (243,261)	47.0	21.2	21.5	10.3
Rocky Mountain (105,408)	59.6	25.4	9.9	5.1
Eastern (195,925)	57.0	18.4	14.8	9.8
Mid-Atlantic (260.844)*	54.6	22.8	12.9	9.7
Mid-Continental (102,873)	56.9	27.5	8.1	7.6
Western (301,006)	48.2	20.2	20.3	11.3
Northwest (99,622)	65.2	23.9	6.8	4.1
*Excludes Washington, D.C. SMSA (308,199)	42.5	25.1	14.0	18.4

Occupational Distribution by Minority and Non-minority/Sex Combinations:

	Total		Non-minority		Minority	
	Men	Women	Men	Women	Men	Women
All Categories	67.7%	32.9%	53.5%	22.9%	13.6%	10.0%
Blue Collar Series	91.7	8.3	65.5	3.8	26.2	4.5
White Collar Series	61.2	38.9	50.7	27.6	10.5	11.3
Professional	76.1	23.9	69.2	19.1	6.9	4.8
Administrative	73.7	26.3	65.2	20.6	8.5	5.7
Technical	56.9	43.1	45.9	28.8	11.0	14.3
Clerical	49.0	51.0	36.9	35.2	12.1	15.8
Other	90.6	9.4	66.0	5.5	24.6	3.9

TABLE 1-023

Minority Group Study of Full-Time Employment November 30, 1980

DEPARTMENT OF DEFENSE (SUMMARY)

PAY SYSTEM	TOTAL ALL EMPLOYEES			TOTAL MINORITY EMPLOYEES				NEGRO/BLACK			
	No	No WOMEN	% WOMEN	No.	%	No WOMEN	% WOMEN	No.	%	No WOMEN	% WOMEN
TOTAL ALL PAY SYSTEMS	**875,994**	**272,149**	**31.1**	**172,789**	**19.7**	**57,806**	**6.6**	**112,812**	**12.9**	**43,323**	**4.9**
TOTAL GEN SCHED & EQUIV	**554,631**	**246,916**	**44.5**	**88,401**	**15.9**	**49,205**	**8.9**	**58,266**	**10.5**	**36,640**	**6.6**
GS- 1	1,327	1,031	77.7	599	45.1	469	35.3	446	33.6	345	26.0
GS- 2	7,706	6,157	79.9	2,370	30.8	1,730	22.5	1,922	24.9	1,416	18.4
GS- 3	39,315	32,423	82.5	10,160	25.8	7,579	19.3	7,420	18.9	5,654	14.4
GS- 4	69,349	55,404	79.9	15,115	21.8	11,129	16.0	10,682	15.4	8,085	11.7
GS- 5	81,084	58,824	72.5	16,534	20.4	11,356	14.0	11,435	14.1	8,234	10.2
GS- 6	33,784	23,608	69.9	6,368	18.8	4,380	13.0	4,586	13.6	3,374	10.0
GS- 7	52,682	24,704	46.9	9,258	17.6	4,724	9.0	5,939	11.3	3,575	6.8
GS- 8	10,285	3,692	35.9	1,576	15.3	702	6.8	1,106	10.8	566	5.5
GS- 9	60,888	19,118	31.4	9,178	15.1	3,535	5.8	5,333	8.8	2,546	4.2
GS-10	5,749	699	12.2	591	10.3	110	1.9	329	5.7	76	1.3
GS-11	67,632	12,151	18.0	7,732	11.4	2,146	3.2	4,354	6.4	1,666	2.5
GS-12	69,475	6,799	9.8	5,760	8.3	1,065	1.5	3,074	4.4	884	1.3
GS-13	34,979	1,753	5.0	2,265	6.5	215	.6	1,179	3.4	175	.5
GS-14	14,651	423	2.9	695	4.7	48	.3	368	2.5	35	.2
GS-15	5,725	130	2.3	200	3.5	17	.3	95	1.7	9	.2
AVERAGE GRADE	7.93	5.65		6.55		5.40		6.22		5.43	
TOTAL EXECUTIVE	**915**	**24**	**2.6**	**31**	**3.4**	1	.1	**23**	**2.5**	1	.1
AVERAGE SALARY	50,229	50,213		50,958		50,100		50,796		50,100	
TOTAL WAGE SYSTEMS	**310,517**	**19,574**	**6.3**	**83,458**	**26.9**	**8,013**	**2.6**	**54,093**	**17.4**	**6,279**	**2.0**
REGULAR NONSUPERVISORY	**249,526**	**17,387**	**7.0**	**70,830**	**28.4**	**7,185**	**2.9**	**46,225**	**18.5**	**5,582**	**2.2**
WG- 1	3,382	2,116	62.6	1,554	45.9	1,075	31.8	1,027	30.4	689	20.4
WG- 2	8,463	2,025	23.9	4,718	55.7	1,339	15.8	3,730	44.1	1,121	13.2
WG- 3	5,410	896	16.6	2,482	45.9	421	7.8	1,864	34.5	330	6.1
WG- 4	7,256	1,680	23.2	3,439	47.4	781	10.8	2,728	37.6	651	9.0
WG- 5	28,949	3,503	12.1	12,004	41.5	1,274	4.4	8,557	29.6	1,020	3.5
WG- 6	17,780	1,736	9.8	7,798	43.9	693	3.9	5,703	32.1	586	3.3
WG- 7	15,670	1,339	8.5	6,070	38.7	445	2.8	4,283	27.3	350	2.2
WG- 8	30,507	1,658	5.4	8,595	28.2	523	1.7	5,681	18.6	420	1.4
WG- 9	25,635	897	3.5	6,019	23.5	248	1.0	3,279	12.8	154	.6
WG-10	72,309	1,288	1.8	13,846	19.1	323	.4	7,449	10.3	219	.3
WG-11	21,860	214	1.0	2,955	13.5	53	.2	1,425	6.5	35	.2
WG-12	8,752	34	.4	997	11.4	8	.1	356	4.1	5	.1
WG-13	2,705	7	.3	278	10.3	1		111	4.1	1	
WG-14	782	4	.5	72	9.2	1	.1	31	4.0	1	.1
WG-15	66			3	4.5			1	1.5		
AVERAGE GRADE (WG)	8.06	5.17		6.95		4.47		6.56		4.46	
REGULAR LEADER	**8,500**	**355**	**4.2**	**2,288**	**26.9**	177	2.1	1,444	17.0	**148**	**1.7**
WL- 1	115	104	90.4	58	50.4	52	45.2	45	39.1	39	33.9
WL- 2	326	63	19.3	241	73.9	50	15.3	184	56.4	42	12.9
WL- 3	119	29	24.4	65	54.6	15	12.6	53	44.5	12	10.1
WL- 4	308	43	14.0	151	49.0	27	8.8	127	41.2	25	8.1
WL- 5	788	45	5.7	375	47.6	11	1.4	278	35.3	11	1.4
WL- 6	567	27	4.8	244	43.0	11	1.9	186	32.8	8	1.4
WL- 7	353	9	2.5	119	33.7			82	23.2		
WL- 8	871	12	1.4	287	33.0	6	.7	199	22.8	6	.7
WL- 9	1,222	3	.2	192	15.7			93	7.6		
WL-10	2,850	14	.5	461	16.2	4	.1	158	5.5	2	.1
WL-11	720	4	.6	67	9.3	1	.1	32	4.4	1	.1
WL-12	157	1	.6	14	8.9			2	1.3		
WL-13	88	1	1.1	12	13.6			5	5.7		
WL-14	15			1	6.7						
WL-15	1			1	100.0						
AVERAGE GRADE (WL)	8.21	3.58		6.66		2.97		5.96		3.02	

While the urgent priority is refinancing the system to achieve solvency in the short term, that will only serve to compound the inequities that exist. What we are really saying then to women in the federal service (and in the nation) is that the big part of the cost of saving the social security system is disproportionate price women will continue to pay. If universal coverage goes into effect for women, we are saying to them that they must join in paying that price. We already know that, women's life patterns have changed:

Women live longer on the average 19 years beyond retirement age.

90 percent of all retirees opt to retire before age 65. Women have a history of retiring earlier, following their spouses into retirement.

Women have lower career earnings and interrupted work histories.

Women make up 50 percent of our workers (30 percent of the federal workers) today.

Large numbers of women fail to qualify for benefits on their lower earnings.

Single women retirees receive lower benefits.

Divorce is increasing; divorced women receive no benefits unless the marriage lasted more than ten years.

We support those who have said that the structural reforms proposed to make the system solvent fall into two basic areas: Additional revenue or reduced benefits. And, we support the view that the trade-off for most of the reforms will mean a reduction of benefits with a disproportionate impact on women. We fail to understand how the standard of fairness and equity can be applied here. And, further, we ask you, Mr. Chairman, and your colleagues to confront this issue in your deliberations.

The second issue is that the proposal for universal coverage lacks clarity and definition. It is unthinkable that there is no plan for this major change. The change will affect not only the newly hired who would be covered in 1984 but over 2.4 million workers under the present retirement system and those already in retirement. We strongly support those who have said earlier in the commission report and these hearings that before coverage of federal workers is mandated, a separate pension program to supplement social security must be in place. Such a pension program should assure that:

1. Pension benefits now available would not be reduced.
2. Any additional financial burden to employees would have commensurate adjusted benefits.
3. The identity of retirement plans covering employees would be maintained.
4. Employees would retain the right to improve their retirement systems.

We can not believe that the Congress will mandate coverage if we do not know how or whether the retirement benefits of present and future employees will be protected and guaranteed. Some have already spoken about the great importance of restoring public confidence in the social security system. We see this as clearly related to how Congress decides to treat proposed universal coverage.

The issue that is very disturbing is the question of funding the present civil service retirement system as new employees are covered by social security. It is incredible that this question remains and was not addressed in the report. It is not that facts are not available; it is that the Commission opted not to open "Pandora's Box." Estimates are available that predict what the drop in contributions to the CSRS will cost. It has been reported already that the cash flow problem created by the drop could bankrupt the system within 40 years. It has also been reported that the estimated added revenues to social security ($9.9 billion) would be offset by additional Federal Government payments.

What is staggering about the blow to the CSRS is the range of estimates of the gap that will be created when present workers begin to retire and, if in the future, federal employees no longer pay into the system. These estimates range from an initial $185 billion, assuming zero inflation over the next 40 years, to as high as $640 billion with inflation factored into the estimates. One report states that federal funding of the new combined retirement system would exceed that of the existing CSRS by $63.2 billion between 1983-1989. This is a cost to the taxpayers.

Previous speakers before these hearings have expressed grave concerns about the long term impact of universal coverage on the social security system 30 to 40 years in the future. We support those concerns and the appeals urging you, Mr. Chairman, and your colleagues to see that the "operations" are not only successful but that the "Patients" survive. We call to your attention the following publication, "Fund for Assuring an Independent Retirement (Fair)—comments on the National Commission on Social Security options paper, December 8, 1982." It presents a careful analysis of the issues. We have attached the summary of those comments to our testimony (Attachment 2).

Let me say in closing that we have brought you our concerns about:

1. Universal coverage vis a vis the impact on the CSRS and the social security system itself;

2. Universal coverage vis a vis continuing even intensifying the inequities to women now and in the future: and

3. Brushing aside the "Women's issue."

We say these are serious problems. The solutions do not elude us but the problems have to be confronted and equitable remedies prescribed. We want true equity for all. We want the solvency of the social security system and the CSRS. We are confident that solutions can be reached that will be in all our best interests as citizens, workers, retirees and taxpayers.

Mr. Chairman, I want to again thank you and the members of the Subcommittee for giving me the opportunity to express the views of F.E.W. on these important issues.

ATTACHMENT I

RESOLUTION

WHEREAS: The Civil Service Retirement System is a moral, and perhaps legal, committment of the Congress that provides for a contributory annuity system with taxable benefits, and this system is viable and equitable for the federal and postal employees covered by it; and

WHEREAS: The public interest is served by the present Civil Service Retirement System -- which enables recruitment and retention of the capable and diligent employees who carry on both the day-to-day and the extrordinary functions of our national government through war and peace and through crisis and normal conditions; and

WHEREAS: Proposals late in the 97th Congress, specifically embodied in S.2905, to be renewed in the 98th Congress, would drastically alter this system into a "pension" system; and

WHEREAS: Said proposals would make no lasting contribution to the Social Security system or the general revenue of the United States, but would, in the long term, add to liabilities;

NOW THEREFORE BE RESOLVED THAT: The 25 national member-organizations subscribing to this resolution, individually and collectively, unalterably oppose S.2905 in the remaining weeks of the 97th Congress and -- perhaps renumbered -- in the 98th Congress and petition Congress to refrain from enacting any such unfair, unjustified dissection of the Civil Service Retirement System;

AND BE FURTHER RESOLVED THAT: The officers of FAIR are directed to present this resolution to all members of Congress, especially the newly-elected 98th Congress, with documentation in support of this position; and each member-organization pledges every effort to defeat the destruction or crippling the Civil Service Retirement System.

Members, FAIR's Board of Directors

John W. Sturdivant

Robert H. Beers

Moe Biller

Charles McDougall (Proxy by Walt: John)

George E. Aiman

Frances Kaplan

Eugene M. Bremer

Member-Organization

American Federation of Government Employees

American Foreign Service Assn.

American Postal Workers Union

Epsilon Sigma Phi

Federal Executive and Professional Association

Federally Employed Women

Graphic Arts International Union

Members, FAIR's Board of Directors	Member-Organization
Rodney A. Bower	International Federation of Professional and Technical Engineers
Sol [illegible]	International Printing and Graphic Communications Union
[illegible]	International Union of Operating Engineers
Roy Moran [illegible]	Military Sea Transport Union
Ed [illegible]	National Association of Air Traffic Specialists
Sandra Lee Adams-Rhoads	National Association of ASCS County Office Employees
Edward L. Menning	National Association of Federal Veterinarians
Vincent R. Sombrotto	National Association of Letter Carriers
M. J. Mc Twomey	National Association of Postal Supervisors
[illegible]	National Association of Postmasters of the U.S.
L. J. Andolsek (by [illegible])	National Association of Retired Federal Employees
[illegible]	National Federation of Federal Employees
James G. Kerkar	National League of Postmasters
Wilbur S. Wood (by C.L.M.)	National Rural Letter Carriers Association
Vincent L. Connery	National Treasury Employees Union
Walter John	Organization of Professional Employees of the USDA
Gary W. Eads	Professional Air Traffic Controllers Organization
John J. Sweeney	Service Employees International Union
John E. Cosgrove	John E. Cosgrove, Chairman of FAIR

SUMMARY COMMENTS ON THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM OPTIONS PAPER

1. The National Commission on Social Security Reform unanimous agreement on the magnitude of the Social Security shortfalls—$150-$200 billion shortterm (1983-1989)—1.82 percent of payroll tax long term (1982-2056)—has established a basis for evaluating cost impact and the merit of alternative options to eliminate these deficits.

2. Mandatory coverage of public sector workers at the federal/postal and state-local levels is an option being considered by the National Commission on Social Security reform. Recommendations are being sought to reduce the Social Security deficit with the least possible cost from the perspective of the individual employee and the taxpayer in the private sector.

3. Although coverage of new workers in the private sector would yield new net tax revenues to the Social Security system as well as the federal government, such extention of coverage to workers in the public sector does not create any new net tax revenues. Additional tax revenues flowing into the Social Security system from public sector employers and employees represent either increased payment for the government entities to the Social Security fund or diversion of contributions from existing government retirement systems.

4. The estimated added Social Security revenues of $9.9 billion from coverage of new federal/postal workers is offset by additional federal government payments. If the Social Security system were to be removed from the unified budget then these payments would be intered as federal budget outlays and no "apparent" savings could be shown.

5. Mandatory coverage under Social Security for public employees would require that existing government retirees' programs be integrated with Social Security. The Civil Service trust fund, which has been evaluated as financially sound and capable of making all payments for the next 100 years, would, instead, if mandatory coverage were adopted for all federal and postal employees have its fund balance exhausted within a period of only two decades. Further, without supplemental funding beyond that provided by statute, the Civil Service Retirement System would be in deficit by the year 2525 in excess of $1 trillion.

6. Senator Ted Stevens of Alaska has introduced bill S. 2905 that would provide integration for new Federal/postal employees into the Social Security system with the necessary funding to continue the existing Civil Service Retirement System as a closed group plan. The federal government's funding of the new combined retirement system would exceed that of the existing Civil Service Retirement System by $63.2 billion between 1983-1989. The budgetary process is elusive and complex. This additional funding would not result in additional outlays, but most likely add to the national debt by $63.2 billion. Over the next 40 years, the increased funding, and expected added national debt, required by S. 2905, would grow to almost 600 billion.

7. S. 2905 proposes investment of future retirement trust funds for Federal/Postal employees in the private sector. New private sector investments would constitute federal budget outlays. The recall of private sector investment into federal bonds would constitute federal budget revenues. This illustrates the complexity of seeking to interrelate Social Security and the Civil Service Retirement System.

8. Inclusion of new federal and postal hirees in Social Security will increase not decrease the magnitude of social security's long term revenue short fall.

The nature of any pay-as-you-go system produces cost levels that directly depend upon the difference between payroll tax revenues versus benefit payments, therefore, coverage of new workers early in their careers provides a positive flow of revenues into the Social Security system. However, upon retirement, the benefit payments to the same workers will greatly exceed their previous tax payments. For instance, an average married worker who retired at 65 in 1980 can expect to recover his Social Security tax payments, plus interest, in retirement benefits in about 18 months—including the employer tax payment—within 36 months.

9. The President's Pay Agent (comprised of three cabinet-level officials) reported to the President of the United States that federal general schedule workers pay rates were 18.5 percent behind comparability rates in the private sector as of March 1982. Further, the Office of Personnel Management total compensation studies demonstrate that total compensation of these workers (including all retirement benefits) fell 13.8 percent behind the private sector comparable levels. Additional funding cost for their retirement system generated by the recommendation for mandatory coverage under Social Security could well contribute to further erosion in pay and benefit levels.

(10). FAIR urges rejection of extension of Social Security coverage to non-covered public employees. This study confirms and further documents that mandatory coverage of public sector workers in order to "solve" the Social Security short term and long term deficits is counter-productive, excessively expensive and contrary to the best interest of the Social Security system, American taxpayers, and public employees.

Chairman PICKLE. Now, the Chair recognizes Shirley Sandage, the executive director of the Older Women's League.

STATEMENT OF SHIRLEY SANDAGE, EXECUTIVE DIRECTOR, OLDER WOMEN'S LEAGUE

Ms. SANDAGE. Mr. Chairman, members of the subcommittee, good morning. My name is Shirley Sandage. I am executive director of the Older Women's League.

We appreciate the opportunity to be here this morning to make comments on the social security issue.

As a membership organization of and for older women, we are pleased to share with you our views about social security and about the recommendations made by the National Commission. In the interests of time, Mr. Chairman, I ask that you place our full statement and supporting data in the record, and I will use the allotted time to make a few key points, as requested.

Chairman PICKLE. Without objection, that will be done.

Ms. SANDAGE. Let me begin by emphasizing just how much social security is a women's issue. Social security has been a lifeline to older women who experience aging very differently than men do.

On average, women are much poorer than men, they live longer, and they are alone rather than married. We have included some tables on the last page of our statement which shows these differences very clearly.

I probably don't need to remind you that women make up the majority of those over the age of 65, and outnumber men 2 to 1 in the older age categories where incomes are especially low.

For these reasons, and because few women have private pensions or significant other assets, women depend on social security much more than men do.

As a general response to the Commission's package, the Older Women's League believe it is better than expected and does a reasonably good job of balancing tax increases against benefit reductions. We applaud the Commission's affirmation of the basic structure of social security, when some wanted to make it voluntary, means-tested, or just another private pension.

We welcome recommendations that would extend coverage, remove the trust funds from the unified budget, and move in the direction of including general revenue support for social security.

We very strongly support the four recommendations that address remarriage of widows, the eligibility of divorced dependent spouses, and the benefit levels of disabled and other widows.

The costs are minimal, because the changes would affect so few, but they are very significant changes to the women involved. Certainly, disabled widows and surviving divorced spouses should be able to remarry and continue receiving spouse benefits just as other older widows can.

The proposes changes on how benefits are calculated for disabled and other widows are particularly needed by these women, who tend to have very low incomes.

Finally, we have special concern for dependent divorced spouses who can't collect social security until their former spouses retire, even though the former spouse isn't providing any support. For displaced homemakers who are divorced or abandoned late in life and cannot find a job because of the double effect of age and sex discrimination, and their lack of recent paid work history, social security benefits are often the only source of income.

We hope you will pay serious attention to this problem in interpreting and modifying the Commission's recommendations for a significant waiting period before eligibility. Such a wait would mean many women will be without any income at all, if divorced in their early sixties, which is quite common.

In the remainder of the package, the recommendation that most concerns older women is the postponement of the COLA. Those who depend on social security the most will feel this impact the most. One recent study showed that single women over the age of 65 who have incomes under $5,000 depend on social security for more than 80 percent of their total income. But, Mr. Chairman, half the older women in this country have incomes under $5,000, and two-thirds of all older women in the United States are single, so the proposal to postpone the COLA falls disproportionately on women, especially those very near the poverty line.

Increasing the income disregard for SSI will not help them, and they wonder how they will pay for increased rent, medical bills, heats and groceries.

We also want to express our strong opposition to any proposals to increase the age of normal retirement or to increase the penalties for early retirement. If you are tempted to consider such changes, as some members of the Commission have urged, then you must examine how they will affect women.

First, living longer doesn't necessarily mean being able to work longer. Some experts believe we have an older, sicker population. Also, women have higher disability rates and more chronic diseases, while men have more acute illnesses.

Second, not everyone who needs or wants a job can find one, which is certainly evident right now. No proposal to change the age of retirement should be seriously considered if the same plan does not include special jobs programs for persons in their sixties, a liberalized definition of disability that doesn't rely only on medical factors, and strong enforcement of age, sex, and racial discrimination laws in employment.

Without absolute assurances on those issues, older women will strenuously fight against changes in retirement age or increased penalties for early retirement.

In conclusion, the Commission, on the whole, didn't address the widespread problems that social security holds for women. We support the concept of earnings sharing as a way to deal with these inequities, but it must be a form of earnings sharing that doesn't advantage some women at the expense of others, pitting homemakers against employed women, for example.

These changes will require very careful study and development, and they will cost money.

We join with those Commission members who called for such a study in fact. We propose a new Commission comparable in stature to the President's Commission on Social Security Reform, to focus on the long-range changes needed to make a more adequate and equitable retirement system for women.

Mr. Chairman, the social security system still needs major reform. I thank you for allowing the Older Women's League to testify.

Chairman PICKLE. We appreciate your testimony, and are mindful of the points you have stated very clearly.

[The prepared statement follows:]

STATEMENT OF SHIRLEY SANDAGE, EXECUTIVE DIRECTOR, OLDER WOMEN'S LEAGUE

Mr. Chairman, distinguished members of the Subcommittee: I am Shirley Sandage, Executive Director of the Older Women's League. The Older Women's League is the first national membership organization to focus exclusively on the concerns of middle-aged and older women. Founded at the White House Mini-Conference on Older Women in 1980, OWL has 75 chartered chapters in more than half of the states, and its members work for changes in public policy that will reduce the inequities older women face.

We very much appreciate this opportunity to share with you the concerns of older women about Social Security, and in particular, our views on proposals to address the financing problems of the Social Security system.

Social Security—A Women's Issue.—We want to begin by underscoring for the members of this subcommittee the extent to which Social Security is a women's issue. Social Security is far and away this country's most important social program. It has significantly reduced poverty among the aged, and has served well as a family support system, insuring against the loss of income through the death or disability of wage earners.

For women, Social Security is a lifeline. In contrast with older men, most of whom are married and living with a spouse even after age 75, the majority of older women are widowed, live alone, and depend on Social Security as their only significant source of income. Although women are 59 percent of the over-65 population, they account for nearly three-fourth of the aged poor, and have substantially lower incomes than older men. (See tables at the end of this statement). So Social Security is very much a women's issue.

The Commission's Package.—Within its very limited mandate, the Commission did a good job of balancing tax increases with benefit reductions. To its credit, the Commission affirmed the fundamental structure of Social Security, and rejected proposals to make Social Security voluntary, or to base benefits solely on contributions paid in, or to change a universal system into one in which benefits would be based on proven need. Each of these alternatives would have been disastrous for women, who on average earn less, change jobs more, spend significant time caring for family members, and live longer on lower incomes that seldom include private pensions or much savings, and who thus depend on Social Security much more than men.

From the viewpoint of political expedience, the package of "reforms" presented by the Commission is better than expected. They are the result of hard bargaining between those who favor higher taxes and those who prefer cuts in benefits to maintain the status quo in Social Security.

The Older Women's League strongly concurs with the defense of the Social Security system reflected in the report. Some of the Commission's recommendations fit in with positions that we have advocated, such as universal coverage and a de-politicized administration of Social Security, by removing it from the unified budget and setting it up as an independent agency. We also welcome the first steps toward including general revenue support for Social Security.

The "Women's Recommendations".—In addition, we strongly support the four recommendations addressing specific groups of women. The categories of older surviving spouses who continue to receive benefits after remarriage should certainly include disabled and divorced women, who were left out of prior legislative changes apparently through a technical quirk, and not through Congressional intent. Divorced dependent spouses need independent eligibility for Social Security benefits regardless of the retirement of their former spouses, few of whom make support payments. This is particularly true for displaced homemakers, who are divorced or abandoned late in life and face serious difficulties in re-entering the paid labor force. We have special concern, therefore, that the Commission recommended a "significant" waiting period following the divorce before eligibility for this benefit would begin.

Finally, the proposed changes in the calculation of benefit levels for disabled and other widows are a step in the direction toward income security for women who tend to have very low incomes, even among older women. The costs associated with these four recommendations are minimal, because only a small percentage of recipients are affected. Nevertheless, the changes are vitally important to those women, and address long-standing grievances.

The Cost-of-living adjustment.—The compromise package, however, has one element that will be especially harmful to older women: the postponement of the COLA. This proposal will not have the same impact on each Social Security beneficiary. On the contrary, those who are most dependent on Social Security and who are very near the poverty line, will feel the effects much more.

A recent study using data from the 1981 Current Population Survey showed that single women over age 65 with incomes less than $5000 depend on Social Security for more than 80 percent of their income.[1] For those over 65 in 1981, the median annual income was $8173 for men and $4757 for women; the poverty level for a person living alone was $4359. So, Mr. Chairman, half the older women in this country have incomes under $5000, and almost two-thirds of all older women in the United States are single (widowed, divorced, separated, or never married). We believe, therefore, that the proposal to postpone the COLA falls very disproportionately on women, especially on those thousands and thousands of women who are near and below the poverty line, who are not eligible for SSI even with the increased income disregard proposed by the Commission. While their income remains the same for another six months, their rent, food, utility, and medical bills continue to increase.

Changes in retirement age.—A second area of grave concern to women are proposals to increase the age of "normal" retirement and/or to increase the penalties for early retirement. While these are not recommendations to which a majority of the Commission agreed, some members did, and many members of this body may seriously consider such changes without fully understanding their significance for women.

Changing the age of retirement is usually discussed in the context of providing "disincentives for early retirement." The proposal is based on a number of questionable assumptions. The most important are that living longer means being healthy longer (and thus able to work at an older age), and that employment is available to all who want or need paid jobs. The latter is certainly not true for older women, particularly for those who have been out of the paid labor force for many years. And expert opinion differs on whether greater longevity means longer periods of good health. It is known that women have higher disability and morbidity (disease) rates, especially chronic diseases, than men do.

An integral part of such proposals for changing retirement age must be an absolutely firm commitment to job training and placement programs specifically designed for persons in their 60's with limited paid work experience, supplemented by more liberal disability programs for persons unable to work, and by more vigorous enforcement of laws prohibiting age and sex discrimination in employment. Until the eradication of such discrimination in the work place, and until we achieve full employment, a change in the age of retirement or an increase in the penalties for early retirement will sentence thousands of older women to abject poverty.

Social Security and women.—Beyond the limited domain in which the Commission worked—finding ways to prevent the "bankruptcy" of a system battered by inflation and unemployment—Social Security as a whole remains inadequate and inequitable for women. Although the Commission had limited discussion of the changing roles and circumstances of women under Social Security, it did not study any basic structural changes that might make the system more equitable for women. Rapid passage of the Commission's proposals may quiet those who wish to dismantle the system, but much more needs to be done to address the inequities.

Social Security must be restructured in a way that recognizes marriage as an economic partnership, with Social Security credits inherited or split upon death or divorce. This would eliminate spousal, divorced wives' and survivors' benefits, along with all associated problems. It would also result in lower benefits to the one-earner couple. OWL supports the earnings sharing concept, as long as it includes a "hold-harmless" provision that would eliminate the disadvantage to one-earner couples. We agree with several members of the Commission that it is time for the concept to be seriously studied and developed in a form that does not advantage one group of women at the expense of another. Thus we take serious exception to the view that earnings sharing can be implemented quickly and at no cost. Otherwise, there will be many losers.

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[1] "The Distribution of Income and Social Security Benefits within the Aged Social Security Beneficiary Population in 1980," Thomas C. Borzilleri, 1982.

The Next Step.—The Older Women's League proposes, therefore, the formation of a commission of comparable stature to the President's Commission on Social Security Reform to address the problems of women and Social Security, focusing on long-range changes needed to make a more adequate retirement system. Such a commission should consider ways of assuring protection to homemakers, equity for two-earner families, and the sharing of Social Security without penalty between spouses. The proposed commission should not confine its deliberations to current funding mechanisms, but should look at alternatives as well. For the Older Women's League and for women, the Social Security system is still in need of reform.

SELECTED DATA ON PERSONS AGE 65+: INCOME, POVERTY, MARITAL STATUS

TABLE 1.—TOTAL MONEY INCOME IN 1981, BY SEX AND AGE

	Men	Women
Age:		
45 to 49	$21,248	$7,494
50 to 54	20,796	6,513
55 to 59	19,879	5,926
60 to 64	14,807	4,966
65+	8,173	4,757

Note: Poverty level in 1981 for a person living alone: $4,359.

Source: Census Bureau, Current Population Reports P-60, No. 134, table 10.

TABLE 2.—POVERTY RATES BY SEX AND RACE/HISPANIC ORIGIN FOR PERSONS AGE 65 OR OVER IN 1981

[In percent]

	Total	White	Black	Spanish origin
Men	10.5	9.0	32.3	23.6
Women	18.6	16.2	43.5	27.4

Note: Poverty rate in 1981 for persons 65+: 15.3 percent

TABLE 3.—NUMBERS OF PERSONS AGE 65 OR OVER IN POVERTY IN 1981, BY SEX AND RACE/HISPANIC ORIGIN

	Total	White	Black	Spanish origin
Men	1,080,000	787,000	272,000	60,000
Women	2,773,000	2,191,000	547,000	86,000

Source: P-60, No. 134, table 17.

TABLE 4.—MARITAL STATUS OF PERSONS 65+ IN 1981, BY SEX

[In percent]

	Men	Women
Status:		
Married	77	38
Widowed	13	51

TABLE 4.—MARITAL STATUS OF PERSONS 65+ IN 1981, BY SEX—Continued

[In percent]

	Men	Women
Separated/divorced	6	5
Never married	4	6

TABLE 5.—MARITAL STATUS OF PERSONS OVER 65, BY SEX AND AGE

[In percent]

	65 to 74	75 plus
Widowed:		
Men	8	22
Women	40	68
Married:		
Men	81	70
Women	48	22

Source: P-20, No. 372, tables 1 and E.

Prepared by: Older Women's League, 1325 G St. NW, LL B, Washington, D.C. 20005.

Chairman PICKLE. We will now recognize Phyllis H. Fineshriber. Ms. Fineshriber is chairman of the Income Maintenance Task Force, Public Policy Committee of the Woman's Democratic Club.

We are pleased to have you. Will you proceed?

STATEMENT OF PHYLLIS H. FINESHRIBER, CHAIRMAN, INCOME MAINTENANCE TASK FORCE, PUBLIC POLICY COMMITTEE, WOMAN'S NATIONAL DEMOCRATIC CLUB, ACCOMPANIED BY MARGARET DAHM, VICE CHAIRMAN

Ms. FINESHRIBER. Thank you, sir. We are grateful for the opportunity to present to this committee our views on recommendations of the National Commission on Social Security Reform.

I am Phyllis Fineshriber, and I am accompanied by Margaret Dahm. We are chair and vice chair, respectively, of the Task Force on Income Maintenance of the Public Policy Committee, a permanent committee of the Woman's National Democratic Club.

Members of our group have experienced various aspects of social insurance. The views which I present have been developed by the task force and approved by the public policy committee.

In addition to oral testimony, we are submitting a more detailed statement for the record.

We believe the Commission has rendered an impressive service to this country and congratulate all the members on the result. We generally support the recommendations considered as a unit, but we could not support some of the changes, were they not part of a package.

We have two general comments to make. Our position on individual recommendations speaks to the principles involved, and is not a blanket endorsement of the legislative language which we have not seen and therefore cannot comment on.

Second, the changes under consideration deal with the urgent problems of financing, not with program improvements and administration, nor the long-range problems of the system.

We are concerned about the special problems of women in the program which you have heard a great deal about from this panel. We are concerned about bringing the system up to date technologically, so as to assure prompt, just and equitable treatment of beneficiaries and taxpayers alike, and to eliminate any possibility of charges of inefficiency and fraud against the system.

Finally, we would urge extended comprehensive study of the long-range problems of the system.

Now, a summary of our specific comments in our paper.

We support the principle of universal mandatory coverage of all workers under social security. We support mandatory coverage of all nonprofit employment. We support extension of coverage to new Federal workers, if, and only if, the benefit rights of current employees and retirees are financially protected and remain the same.

Furthermore, an adequate system of supplemental retirement benefits for new workers must be established by law.

Mr. Chairman, I call to your attention page 4 of our statement for questions which are raised by extending coverage to new Federal workers, and of course, a great deal was said about that earlier this morning.

Second, we support as part of the compromise package the Commission's proposal for taxing like other income, one-half the benefits of those beneficiaries whose adjusted gross income, other than social security, was at least $20,000 for a single individual, and $25,000 for a married couple filing jointly.

Such revenue would be earmarked for the fund.

We join with the Commission in recommending rectification of the so-called notch problem in the legislative process.

Third, we support as part of the compromise package postponing the July 1983 COLA to January 1984, and making future COLA's effective each January.

Our support is based on the fact that no beneficiary's check will be reduced, and benefit rights of no one presently working will be reduced.

Fourth, we support acceleration of the payroll tax increases as necessary for adequate funding and to equalize between beneficiaries and taxpayers the burden of shoring up the system.

Fifth, for reasons of equity, we support the increase in the self-employment tax.

Sixth, we support increased protection of certain groups of widows, widowers, divorced persons and survivors. We also, as other panel members today have done, suggest further efforts toward solving the technical and administrative problems related to the concept of earnings sharing, and of course, this was urged by the Democratic members of the Commission.

We support Treasury reimbursement to the fund for costs based on free military credits given in the past.

Finally, we strongly support the separation of the social security trust funds from the unified budget as they were prior to fiscal 1969. Social security income is available only for social security expenditures. It has no place in decisionmaking in programs financed by general revenues.

In conclusion, social security is a social insurance system with the goal of insuring certain basic protections as an earned right, regardless of other income. Millions of Americans, I am sure I don't have to tell this committee, found during the Great Depression that the provisions they had made for themselves for their old age, possible disability or protection to their survivors, could be wiped out by economic forces completely outside the individual's control.

Unfortunately, too many people today are making similar discoveries. In general, the public policy committee believes recommendations of the National Commission on Social Security Reform represent an acceptable modification of the program.

We believe it would help to avert financial disaster. At the same time, it would preserve the integrity of the social security system.

Thank you again, Mr. Chairman, and members of this committee, for the opportunity to present our views to you today.

Chairman **Pickle**. We thank you, Ms. Fineshriber, and I assume your summation primarily starts on page 8, the points that you wish to make generally. You wish to support the Commission's recommendations?

Ms. **Fineshriber**. That is correct.

[The prepared statement follows:]

STATEMENT OF PHYLLIS FINESHRIBER ON BEHALF OF THE PUBLIC POLICY COMMITTEE, WOMAN'S NATIONAL DEMOCRATIC CLUB

Mr. Chairman: Thank you for the opportunity to present to the Ways and Means Committee our views on recommendations of the National Commission on Social Security Reform.

My name is Phyllis Fineshriber, and I represent the Public Policy Committee of the Woman's National Democratic Club, Washington, D.C. I head that Committee's Task Force on Income Maintenance, formerly known as the Task Force on Social Security, but now broadened to include also within our purview unemployment compensation, public assistance, and workers' compensation.

I am accompanied by Margaret Dahm, vice chair of the Task Force. Both Miss Dahm and I are retired Federal civil servants. As such, we have both rendered services in the past in the form of technical assistance on unemployment compensation to the Ways and Means Committee and its Subcommittee on Unemployment Compensation. Other members of our group have had experience in various aspects of social insurance. The views presented here have been developed by the Task Force and approved by the Public Policy Committee.

GENERAL COMMENTS

The Public Policy Committee congratulates Chairman Greenspan and all the members of the Commission on their statesmanlike approach in dealing with the financial problems of this basic American institution. We generally support the Commission's recommendations considered as a unit. Because they represent a compromise, the Commission's proposed solutions are controversial in some instances. We could not support some of the changes were they not part of a package. Other changes we can support only if we specify certain reservations and conditions. Before dealing with specific items, I have two general comments:

First, Our position on individual recommendations speaks to the principles involved and is not a blanket endorsement of the legislative language which must be developed. Obviously, we cannot comment on the language until we see it.

Second, We recognize that the changes under consideration deal with the urgent problems of financing and not with the broad aspects of program improvements and program administration. Our organization is particularly concerned about the special problems of women, some of which have been dealt with in the Commission's report. Furthermore, members of our group who are former administrators hope that this Committee, Mr. Chairman, will use its great influence to help bring the Social Security System back to its just preeminent technological position, so that beneficiaries and taxpayers alike are assured of prompt, just and equitable treatment and so that charges of inefficiency and fraud can no longer be leveled at the system and its integrity called into question.

SPECIFIC COMMENTS

Changes in coverage

We support the principle of universal mandatory coverage of all workers under Social Security. Such coverage could protect the benefit rights of the individual whether or not that individual moves from one employer to another or from one state to another. Adequate protection could thus be assured for workers with low wages or long periods of unemployment and could reflect the individual's entire work history.

Before Social Security, employer pension plans were provided, generally, only by large employers. After Social Security provided a base level of protection, it became more feasible for employers to provide supplementary retirement protection. The number of employer plans and the proportion of workers with employment related supplementary retirement benefits has increased dramatically since 1940 and is still increasing. In 1940, it is estimated that 4.1 million workers, 14.6 per cent of the private nonfarm labor force were covered by employer pension plans; in 1980, about 35.8 million workers, 48.1 per cent of that labor force were covered.

Extension of mandatory coverage to all nonprofit employment is a move towards the goal of universal coverage, and we support it. For those newly-covered nonprofit workers who now have protection under existing employer retirement plans, the employer can and should adjust such plans to make them supplementary to social security, as presently covered employers have done.

As a matter of general principle, extension of coverage to Federal workers would also be a step in the direction of universal coverage. Such extension raises some difficult questions chiefly related to development of an equitable supplementary Federal retirement system.

For Federal employees, the employer is the Government. Therefore, Congress must act if such workers are to have supplementary protection, as do almost all employees of large private firms. The Federal Government has been a leader in providing its workers with retirement benefits. Its retirement system is generally regarded as a major offset against wages lower in many instances than those paid for comparable work in the private sector. Federal workers retiring after 30 or more years of service, as many do, get retirement pensions significantly higher than social security. They also have paid more for such benefits. Those workers with only short periods of Federal service are less well protected by civil service retirement plans; their moves between social security covered work and Federal service may even leave them without protection under either. Those who die young and leave young families would receive better protection from social security. It should be possible to modify existing Federal retirement systems to supplement social security in such a way that the benefit rights and costs for both current and future employees would be protected.

The Commission calls for extending coverage to workers newly hired after December 31, 1983. The extension is recommendation to provide an increase in social security income. The report does express the belief that an independent supplementary retirement system as a part of the Federal Civil Service Retirement system should be developed for such newly hired workers.

Among the questions raised by partial coverage are the following: How would the total retirement protection and contributions of the new workers compare with the protection and costs under existing civil service retirement? Can an equitable supplementary system for the new hires be developed and adopted by the end of 1983? How would the recommended modification affect the viability of the retirement system for present employees and retirees? Note that unless Comgress acts by then, the newly hired workers would pay 7 per cent to social security and 7 per cent to civil service retirement.

We support the proposed extension of social security to new Federal workers if, and only if, (1) there is legislative protection of the retirement rights of present civil service employees and retirees and the funding of civil service retirement obligations for these people is adequately protected; and (2) a modified system applying to new employees is developed providing for equitable supplemental benefits for these people.

Taxing benefits payments

Currently, employer pensions, including Government retirement pensions, are subject to Federal income tax, to the extent that the payment exceeds the individual's own contribution. Other annuities and retirement pensions are also taxable. As a matter of principle, therefore, it could be considered appropriate to tax one-half of Social Security benefits.

However, the formulas for computing benefits, which are weighted in favor of lower wage workers, were developed on the assumption that the computed amount would not be taxed. Over forty years of benefits payments, beneficiaries have based their living arrangements on the same assumption.

We assume that considerations such as these led the Commission to propose that (1) only one-half of benefit payments would be taxed, and that (2) taxation would be limited to those recipients whose adjusted gross income other than social security was at least $20,000 for a single individual and $25,000 for a married couple filing jointly. Such revenue would be earmarked for the Fund.

Some individuals, including some or our Committee members, have expressed reservations about this limitation regarding it as the introduction of a means test into the program. A means test, however, usually involves inquiry into the specific needs and resources of the affected individuals, and adjustment of benefits to the individual circumstances. No such individual inquiry or adjustment would be involved in the Commission's proposal.

A majority of our Committee does not see the tax limitations as a means test. Rather it is a classification based on income, comparable in intent to approaches already in the Social Security Act and the income tax laws. Social Security benefits formulas are weighted in favor of low wage workers. The income tax laws limit certain credits to those with adjusted gross incomes ; earned income credits are limited to those adjusted gross incomes below $10,000, and credits for the elderly to those with such incomes below $12,500.

We therefore support the Commission's proposal for taxing benefits to raise needed revenue for the Fund, although it is doubtful that we would support it on its own. This is one of the areas in which technical considerations are important. We recognize that difference of $1 in adjusted gross income can make a very substantial difference in the amount of added tax required for a social security beneficiary. We note that the Commission has recognized the "notch" problem implicit in the provision and has recommended rectifying it in the legislative process. We agree that this is highly desirable.

Changes in cost of living adjustment (COLA) increases

In the compromise package, the various increases in revenue are accompanied by a decrease in future payments from the Fund, achieved by a one time postponement of the July 1983 COLA to January 1984; future COLAs would be effective each January. The Commission estimates tha this change will make a substantial monetary contribution towards solving the programs financial needs.

By itself, it is doubtful that our Committee would support this change, since even a small increase can be very important for those who rely on social security for all or most of their income. But this proposal will not reduce the amount of the check currently being received by any beneficiary. It will not reduce the basic benefit rights of those who are still working. Therefore, we support this proposal as part of a package including increases in revenue.

Increase social security tax

We support the earlier effective dates recommended for payroll tax increases as necessary for adequate funding. Naturally, no one likes to pay more taxes, but the Fund's difficulties cannot be adequately and equitably solved solely by changes in benefit rights. It might be noted that, even with the increase to a combined rate of 15.30 percent by 1990, the tax burden will be lower than the combined rates now in effect for similar programs in some other industrial nations. (West Germany, 18.5 percent; Italy, 24.2 percent; Norway, 22.1 percent; Netherlands, 23.25 percent; United Kingdom, 21.45 percent.)

Increase self-employment tax

In principle, we support the change requiring self-employed individuals who have the same benefit rights as other covered workers to contribute to benefit financing at the same level as is required with respect to other covered individuals. It is also appropriate that the equivalent of the employer tax should be treated, for income tax purposes as is the employer tax for all other employers.

Changes affecting women

We support the changes which increase the protection of certain classes of widows, widowers, divorced persons and survivors. These changes deal with problems of particular concern to our membership.

We believe earnings sharing has possibilities for future equity for women in the system and join with Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper in calling for renewed effort in solving technical and administrative problems related to this concept.

Reimbursement for free military credits

We also support the proposal for Treasury reimbursement to the fund for costs based on free military credits given in the past.

Take social security cut of the unified budget

We strongly agree with the Commission majority's recommendation that the Social Security Trust Funds be separated from the unified budget as they were prior to fiscal year 1969.

The purpose of the annual budget is to make choices among expenditures, giving preference in the budget period to one expenditure over another, and determining how much revenue is needed and from what sources. It is essentially a competitive process. Social security commitments stretching into the future, resting on past earnings, and financed separately are not an appropriate part of this competition.

Moreover, inclusion of social security transactions in the unified budget is unwise for other reasons. It leads to a distortion of decision-making in general revenue programs. An excess of income over outgo in the social security program, although legally reserved for social security expenditures, shows in the unified budget as if it were available money and may encourage additional general revenue expenditures. Conversely, social security deficits can lead to unwarranted reductions in other Government expenditures when they are all included together in the unified budget.

SUMMARY

The positions taken by the Public Policy Committee of the Women's National Democratic Club are summarized as follows:

1. We support the principle of universal mandatory coverage of all workers under Social Security. We support mandatory coverage of all nonprofit employment. We support extension of coverage to new Federal workers if and only if the benefit rights of current employees and retirees are financially protected and remain the same. Furthermore, an adequate system of supplemental retirement benefits for new workers must be established by la[illegible]

2. We support as part of the compr[illegible]ackage the Commission's proposal for taxing like other income one half th[illegible]f those beneficiaries whose adjusted gross income other than social se[illegible] $20,000 for a single individual and $25,000 for a married couple filing jointly [illegible] revenue would be earmarked for the Fund. We join with the Com[illegible]ssio[illegible]nmending rectification of the so-called "notch" problem in the legislative [illegible]

3. We support as part of the compro[illegible]postponing the July 1983 COLA to January and making future COLA'[illegible] each January.

4. We support acceleration of the payroll tax increases as necessary for adequate funding and to equalize the bu[illegible]en of shoring up the system between beneficiaries and taxpayers.

5. We support the increase in the self-employment tax for reasons of equity.

6. We support increased protection of certain groups of widows, widowers, divorced persons and survivors.

7. We support Treasury reimbursement to the Fund for costs based on free military credits given in the past.

Finally, we strongly support the separation of the Social Security Trust Funds from the unified budget, as they were prior to fiscal year 1969.

In conclusion, Social Security is a social insurance system with the goal of assuring certain basic protections as an earned right, regardless of other income. There is no need to remind this Committee, Mr. Chairman, that millions of Americans found during the Great Depression that the provision they had made for themselves for their old age, possible disability, or protection to their survivors in case of death, could be wiped out by economic forces completely outside the individual's control. Many people today are making similar discoveries. Overall, the Public Policy Committee generally believes the recommendations of the National Commission on Social Security Reform represent an acceptable modification of the program, helping to avert financial disaster and at the same time preserving the integrity of the American system of Social Security.

Thank you again, Mr. Chairman and Members of the Ways and Means Committee, for the opportunity to present our views to you today.

ORAL TESTIMONY

Mr. Chairman: We are grateful for the opportunity to present to this Committee our views on recommendations of the National Commission on Social Security Reform.

I am Phyllis Fineshriber and I am accompanied by Margaret Dahm. We are Chair and Vice Chair respectively of the Task Force on Income Maintenance, of the Public Policy Committee, a permanent committee of the Women's National Democratic Club. Members of our group have had experience in various aspects of social insurance. The views which I present have been developed by the Task Force and approved by the Public Policy Committee.

In addition to oral testimony, we are submitting a more detailed statement for the record.

GENERAL COMMENTS

We believe the Commission has rendered an impressive service to this country and congratulate all the members on the result. We generally support the recommendations considered as a unit, but we could not support some of the changes were they not part of a package.

We have two general comments to make:

1. Our position on individual recommendations speaks to the principles involved and is not a blanket endorsement of the legislative language, which we have not seen and therefore cannot comment on.
2. The changes under consideration deal with the urgent problems of financing, not with program improvements and administration, nor the long range problems of the system. We are concerned about the special problems of women in the program. We are concerned about bringing the system up to date technologically so as to assure prompt, just and equitable treatment of beneficiaries and taxpayers alike, and to eliminate any possibility of charges of inefficiency and fraud against the system. We would urge extended comprehensive study of long range problems of the system.

SUMMARY OF OUR SPECIFIC COMMENTS

1. We support the principle of universal mandatory coverage of all workers under social security. We support mandatory coverage of all nonprofit employment. We support extension of coverage to new Federal workers if and only if the benefit rights of current employees and retirees are financially protected and remain the same. Furthermore, an adequate system of supplemental retirement benefits for new workers must be established by law.
2. We support as part of the compromise package the Commission's proposal for taxing like other income one half the benefit of those beneficiaries whose adjusted gross income other than social security was at least $20,000 for a single individual and $25,000 for a married couple filing jointly. Such revenue would be earmarked for the Fund. We join with the Commission in recommending rectification of the so-called "notch" problem in the legislative process.
3. We support as part of the compromise package postponing the July 1983 COLA to January and making future COLA's effective each January. Our support is based on the fact that no beneficiary's check will be reduced and benefit rights of no one presently working will be reduced.
4. We support acceleration of the payroll tax increases as necessary for adequate funding and to equalize between beneficiaries and taxpayers the burden of shoring up the system.
5. We support the increase in the self-employment tax for reasons of equity.
6. We support increased protection of certain groups of widows, widowers, divorced persons and survivors. We suggest further effort go into solving the technical and administrative problems related to the concept of earnings sharing.
7. We support Treasury reimbursement to the Fund for costs based on free military credits given in the past.

Finally, we strongly support the separation of the Social Security Trust Funds from the unified budget, as they were prior to fiscal year 1969.

In conclusion, Social Security is a social insurance system with the goal of assuring certain basic protections as an earned right, regardless of other income. Millions of Americans found during the Great Depression that the provision they had made for themselves for their old age, possible disability, or protection to their survivors, could be wiped out by economic forces completely outside the individual's control. Too many people today are making similar discoveries. In general, the Public Policy

Committee believes the recommendations of the National Commission on Social Security Reform represent an acceptable modification of the program. We believe it would help to avert financial disaster. At the same time, it would preserve the integrity of the Social Security System.

Thank you again, Mr. Chairman and Members of the Ways and Means Committee, for the opportunity to present our views to you today.

Chairman PICKLE. Now, we would like to invite Betty Skaggs. I am looking for your testimony, Ms. Skaggs. You are president of the Texas Nurses' Association, and you are presenting testimony for the American Nurses' Association. I am pleased that I could be here and be in the chair when you testify.

STATEMENT OF BETTY SKAGGS, PRESIDENT, TEXAS NURSES' ASSOCIATION, REPRESENTING THE AMERICAN NURSES' ASSOCIATION, INC., ACCOMPANIED BY TOM NICKELS, LEGISLATIVE COUNSEL

Ms. SKAGGS. I am glad, too. Thank you. Accompanying me is Tom Nickels, legislative counsel for the Washington office of the American Nurses' Association.

We are glad to have the opportunity of presenting our views on the problems facing the social security system. I will highlight our testimony and ask that the full statement be included in the record.

Chairman PICKLE. So ordered.

Ms. SKAGGS. We would like to focus on two aspects of the social security system of crucial importance to registered nurses, the withdrawal of social security coverage by nonprofit employers, and social security issues of concern to women.

The National Commission on Social Security Reform recommended mandatory social security coverage of all nonprofit organizations. For registered nurses, and other employees of nonprofit hospitals, this proposal is particularly crucial to their overall economic well-being.

We commend this recommendation and strongly urge that it be enacted into law. Provisions exempting religious, charitable, and nonprofit institutions for mandatory social security coverage have hit hardest on workers and hospitals. Numerous hospitals have exercised their right to withdraw from the social security program during the past several years, leaving thousands of workers without retirement income protection.

In 1982, over 300,000 hospitals have notified IRS of their intent to withdraw, while hundreds of others have the matter under serious consideration.

In the Dallas area alone last year, nine hospitals, employing over 10,000 workers, indicated their intent to withdraw from the social security system.

The possible advantage to hospitals of terminating coverage is obvious. It is a way to save money. However, the cost to hospital workers in terms of loss of income protection and the cost to the social security system itself provides a much more compelling reason to require all religious, charitable, and nonprofit hospitals to remain in the system.

During deliberation last summer by the House-Senate conferees over the Tax Equity and Fiscal Responsibility Act of 1982, we were concerned that the new fiscal restraints which were being placed on hospitals would result in additional pressures on these hospitals to drop social security coverage in order to reduce the costs.

Consequently, we suggested a technical amendment which states that in determining whether the hospital's costs were within the reimbursement limitations, the costs attributable to mandatory FICA contributions should be disregarded, thus removing an additional incentive to opt out.

We applaud Congressman Pickle for his diligence in seeing that this provision was adopted by the Conference. However, we believe that this amendment was a temporary measure and the option to withdraw from the program must now be eliminated.

The American Nurses Association believes it is in the best interests of health care employees and the country as a whole for all hospital employees to have mandatory social security coverage. Nowhere is the need for social security greater than among hospital workers.

Over 80 percent of hospital workers are women. Hospital workers earn on an average of 88 percent of all workers. Hospital workers have a degree of job mobility. It has been a tragedy for many thousands of workers in nonprofit hospitals that their employers whose very existence depends on the social security system, that is medicare, have been withdrawing from the social security system in ever increasing number.

Hospital workers are among the lowest paid in the industry and are those in greatest need of the protection offered by social security. Because of their relatively low wages, and the weighted benefit formula for which no comparable employer pension exists, it has kept many out of poverty during retirement.

Moreover, social security offers important protection against the loss of income due to long-term disability. It offers protection to dependents and survivors and has extremely important health insurance benefits. All of these are crucial components of economic well-being, particularly to a mobile, low, and moderate income population which is characteristic of the hospital work force.

These features which cannot be duplicated in private plans were designed especially to protect these groups. The American Nurses' Association also supports the Commission's proposals that attempt to correct some of the inequities facing women under the current social security system.

We appreciate the opportunity to testify.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN NURSES' ASSOCIATION

(By Betty Skaggs, R.N., Ph. D., President, Texas Nurses' Association)

The American Nurses' Association is a professional association and labor organization representing the nation's registered nurses. We are pleased to have this opportunity to present our views on the problems facing the Social Security System.

The American Nurses' Association has long been a strong supporter of the Social Security System as the foundation of income protection for the nation's aged and disabled and their families. We are gravely concerned with the financial crisis facing the Social Security System which is threatening the vital role that the system plays in providing income to our nation's most vulnerable populations. Because of the recent combination of high unemployment and high inflation, expenditures from the Old Age and Survivors Insurance Fund are exceeding revenues at such a rate that, without any changes in the current law, the fund will be unable to meet benefit payments on time by the middle of this year. In the long term, Social Security is again expected to encounter severe financial difficulties, because projected demographic and employment trends indicate that the ratio of retired people to working people will drastically increase shortly after the turn of the century. It is clear that the nation can no longer afford a delay in finding solutions to improve the solvency of the Social Security System. We urge this Congress to act swiftly to resolve these financial problems of our nation's most important program.

Improving the solvency of the Social Security System involves difficult and painful, but necessary choices. We feel strongly that any solutions to the financing problems of the Social Security System must be made within a general framework that retains the essential characteristics of the system as a social insurance program for which all members of society bear responsibility.

It has always been ANA's goal to ensure that the aged and disabled populations are able to enjoy a decent, dignified and healthful life and are free from enormous financial burdens that once beset these populations. At the same time, we represent a membership of working people in the low to moderate income range who are unable to assume an enormous financial burden for the solvency of the Social Security System, but who are willing to shoulder their fair share of the responsibility.

We believe that the avoidance of a large direct infusion of general revenues as a solution to the financing problems is most appropriate at this time. One of the system's major strengths and source of popular support lies in the fact that it has been self-contained insurance program. It is extremely important to retain this characteristic of Social Security. Particularly at this time, when so many sorely needed health programs have been cut or curtailed and so many more are being threatened, we could not support a direct infusion of general revenues into the system.

We believe that the Social Security System must recognize the need for all workers to be included in the program and that the system provides enormous social benefits for which all members of society should bear a responsibility.

In the remainder of our remarks we would like to focus on the National Commission on Social Security Reform proposals to extend Social Security coverage and to improve adequacy of benefits for women—two issues of immediate importance to registered nurses.

EXTENSION OF SOCIAL SECURITY COVERAGE

A. Non-Profit Organizations.—The National Commission on Social Security Reform recommended mandatory Social Security coverage of all non-profit organizations. For registered nurses and other employees of non-profit hospitals, this proposal is particularly crucial to overall economic well being. We strongly urge this Congress to enact this proposal.

As the nation's largest group of health professionals, registered nurses are well acquainted with the potentially devastating impact of the lack of Social Security coverage. The provision exempting religious, charitable and non-profit institutions from mandatory Social Security coverage has hit hardest on workers in hospitals. Numerous hospitals have exercised their right to withdraw from the Social Security program during the past several years, leaving many thousands of workers without retirement income protection. In late 1980, a significant upward trend began in the number of hospitals filing advance notice of withdrawal. As of November, 1982, about 300 hospitals have notified IRS of their intent to withdraw, while hundreds of other have the matter under serious consideration.

The possible advantage to hospitals of terminating coverage is obvious; it is a way to save money. A study by the House Ways and Means Committee found that the cost of Social Security was a principle reason for defection from the program. However, the cost to the hospital workers in terms of loss of income protection and the cost of the Social Security System, itself, provide much more compelling reasons to require all religious, charitable and non-profit hospitals to remain in the system.

Although some hospitals have provided alternative retirement programs, such action is not required by law. Furthermore, employers cannot offer plans duplicating the benefits of Social Security without tremendous cost. Hospitals are not required to inform their employees of the decision to opt out, and employees have no legal right to participate in the decision. Once coverage is terminated it cannot be reinstated, although the notice may be revoked before the effective date of withdrawal.

During deliberations last summer by the House-Senate conferees over the Tax Equity and Fiscal Responsibility Act of 1982, we were concerned that the new fiscal restraints which were being placed on hospitals would result in additional pressures on these hospitals to opt out of the Social Security program. Specifically, we feared that limitations on reimbursement would provide an incentive for hospitals to drop Social Security coverage in order to reduce their costs. Consequently, we suggested a technical amendment which stated that, in determining whether a hospital's cost were within the reimbursement limitations, the costs attributable to mandatory F.I.C.A. contributions would be disregarded, thus removing an additional incentive to opt out. We applaud the Chairman for his diligence in seeing that this provision was adopted by the conference. However, we believe that this amendment was a temporary measure, and that the option to withdraw from the program must not be eliminated.

The American Nurses' Association believes that it is in the best interest of health care employees, and the country as a whole, for all hospital employees to have mandatory Social Security coverage. Nowhere is the need for Social Security greater than among hospital workers: over 80 percent of hospital workers are women; hospital workers earn on the average only 88 percent of the average of all workers; hospital workers have a high degree of job mobility. It has been a tragedy for many thousands of workers in non-profit hospitals that their employers, whose very existence depends on the Social Security System—i.e., Medicare—have been withdrawing from the Social Security System in ever increasing numbers.

Hospital workers, among the lowest paid in the industry, are those in greatest need of the protection offered by the Social Security System. Because of their relatively low wages, the weighted benefit formula, for which no comparability exists in employer pensions, has kept many low wage earners out of poverty in retirement.

Because of their relatively high degree of job mobility, the portability of Social Security coverage has assured many of at least minimum level of retirement income. Because of this mobility, it is unlikely that many hospital workers would qualify for sufficient, if any, income from their employer pension.

Moreover, Social Security offers important protection against the loss of income due to long-term disability. It offers protection to dependents and survivors and it has extremely important health insurance benefits. All of these crucial components of economic well being, particularly to a mobile, low and moderate income population which is characteristic of Social Security System, which cannot be duplicated in private plans, were designed especially to protect these groups.

The American Nurses' Association has historically remained a staunch advocate for a comprehensive Social Security program. Provisions which permit various governmental and non-profit private sector employees to withdraw from the program threaten the welfare of hundreds of thousands of employees and retirees. This threat is particularly significant for regiatered nurses because the majority of these professionals work in non-profit private sector health care institutions.

The National Commission on Social Security Reform has recommended that all non-profit employees be provided with mandatory Social Security coverage. We applaud the findings of the Commission, and ask that the Committee include in its legislative proposal a provision mandating all non-profit hospitals, including those which have already withdrawn from the program, to provide Social Security for all employees.

B. The Federal Civil Service.—One of the Commission's more controversial proposals is the inclusion of Federal Civil Service employees in the Social Security System. While mandatory coverage of federal employees is consistent with the objectives of the Social Security System as a universal social program, we believe strongly that this option, by itself cannot be implemented without a much broader consideration of the concerns and rights of federal civil service employees. Particularly at this time, when the wages of federal employees are being frozen and when other benefits, such as health insurance, have been shrinking or requiring great increases in workers' out-of-pocket-costs, there must be assurance that the rights of federal workers will not be eroded in the efforts to improve the solvency of the Social Security System.

We therefore, feel that this option cannot be adequately addressed in isolation without the development of a complete retirement income package for federal employees. There must be consideration of the effect of Social Security coverage on a separate federal pension system and the resulting costs to and benefits for employees. Because such questions have not been adequately covered, we think that it would be inappropriate and unfair to federal employees to mandate Social Security coverage without coinciding mandate to protect their future retirement income security.

C. State and Local Governments.—The National Commission also recommended that those state and local governments currently participating in the Social Security System not be permitted to terminate coverage in the future. We agree with this only as a temporary measure and feel that, in addition, this option should include incentives for state and local governments not currently covered to enter the system. Such an incentive could be similar to the technical amendment in Medicare, previously mentioned, eliminating financial incentives for non-profit hospitals to withdraw from Social Security.

While the issue of coverage of state and local employees is complex, we believe that all state and local employees should be included in the Social Security System. Undoubtedly, there will be constitutional challenges to a mandatory inclusion of state and local governments within the Social Security System. Nevertheless, we feel that failure to include state and local governments in the Social Security System in anticipation of constitutional challenges is unwise. The only fair and equitable way to resolve the very complex constitutional issue is to leave it to the courts to deliberate.

SOCIAL SECURITY ISSUES OF CONCERN TO WOMEN

The National Commission offered four proposals, which would primarily benefit women, affecting certain groups of widows, divorced women, and disabled women. The Commission recommended that Social Security benefits continue for surviving spouses who remarry; that divorced spouses be eligible for spouse benefits at age 62, whether or not the former spouse is eligible or has claimed benefits; that survivor benefits be indexed to the increase in wages from the time the worker dies to the time the survivor is eligible to claim them; and the benefit rate be increased for disabled widows and widowers age 50–59.

All of the proposals are necessary to improve the well being of our aged population. Aged widows compose two-thirds of all elderly households with income below the poverty line. Many have had only marginal attachment to the labor force and therefore, have had to rely on whatever benefits became available through the wage earning spouse. These four proposals will do much to help the most vulnerable of the elderly, widows, including those divorced and disabled, who have been most disadvantaged under the retirement income programs.

In addition to these proposals, we urge you to explore other options to improve the adequacy and equity of the treatment of women under the Social Security System. As an organization representing predominantly women professionals, the American Nurses' Association is increasingly concerned about the policies which affect the economic well-being of women.

Social Security is an extremely important source of income for aged women, many of whom never receive any other retirement benefits. Nevertheless, there are some inequities and inadequacies in the treatment of women under the program.

When the Social Security System was enacted most women were full-time homemakers, or worked part-time or intermittently outside of the home. Although women's economic and social status has changed remarkably since that time, the Social Security System has not kept pace.

The system is not inherently discriminatory, in the sense of making sex-based distinctions for the purpose of calculating contributions or benefits. Rather, certain aspects of the system have a disparate impact on men and women. Because women are more likely to be out of the labor force to raise children, more often lower wage earners, and more likely to be widowed, they are more often disadvantaged under the Social Security System.

A. Benefit Averaging Period.—Social Security benefits are calculated on the basis of earnings over a worklife. For people who reach age 62 in or after 1991, the benefits will be calculated on the basis of 35 years of earnings. The number of years under 35, which are spent out of the labor force or in non-covered employment, will be averaged in as zero earnings in the final benefit calculation.

This long averaging period is, typically, more disadvantageous to working women than working men as many women spend time out of the labor force for family and childbearing responsibilities. Therefore, in a sense women are penalized under the Social Security System, if this time spent out of the paid labor force results in fewer than 35 years earning.

We believe that the Social Security System should not penalize parents, primarily women, who temporarily leave the labor force for family responsibilities. We believe, as we feel all society believes, that caring for one's own young is of sufficient importance that people should not be adversely affected under the Social Security System. We urge Congress to explore options and enact legislation which will enable parents who take time out of the labor force for family responsibilities to not be penalized in the calculation of Social Security benefits. Specifically, we believe that the Social Security System should allow child care "drop-out years".

B. Inequities Between One-Earner and Two-Earner Couples.—As more and more women enter the paid labor force, another inequity under the current system has become controversial. In two-earner families, both spouses contribute to the Social Security System, and the lower wage earner may receive either the spouse benefit, or a worker benefit, which ever is higher. In a one-earner family the non-working spouse is automatically entitled to the spouse benefit.

Thus, two-earner couples may contribute more to the system but not receive proportionately more in benefits. In the case where two-earner couples together earn the same as the one-earner family, they would actually receive lower total benefits even though they had contributed more.

We believe that some structural adjustments in the Social Security System are necessary to improve the equity between one and two-earner couples. One prominent proposals, earnings sharing would help alleviate existing inequities. Under the earnings sharing proposal, the combined earnings of a husband and wife during their marriage would be divided equally between them for the purpose of determining eligibility for, and the amount of old age and disability benefits. This change would make the treatment of Social Security similar to the treatment of income and other assets obtained during marriage in community property states. This would result in equal benefits to both spouses during the time they were married.

The earnings sharing approach to calculating Social Security benefits is a comprehensive approach to eliminating or reducing many of the inequities and inadequacies under the current system. It is based on the idea of marriage as an economic partnership. A major group of beneficiaries would be divorced women, particularly those with no or low earnings during marriage. Earnings sharing would also improve equity (although would not eliminate the inequities) between two-earner and one-earner couples.

The proposals would help eliminate many of the problems faced by women under the Social Security System. While they have received considerable attention in the recent past, they have been pushed back in the legislative agenda because of the larger problem of financing the current Social Security System. It makes little sense to address the problems of Social Security financing, however, without considering the structural adjustments necessary to the system. It is almost universally recognized that the Social Security System could be changed to treat women more fairly and adequately. It also seems universally apparent that some adjustments of the system will have to be made in the near future to reach this goal. To discuss the future financing of the system without incorporating the necessary reforms makes little sense since the financing and the benefits are so inextricably interrelated.

CONCLUSION

We wish to commend the National Commission on Social Security Reform for its effort in creating a bi-partisan consensus on many of the issues facing Social Security. We urge this Congress to quickly resolve the problems facing our nation's most important social program.

Chairman **Pickle**. We thank you.

I tried to follow your testimony along with the overall statement you made and find encouragement that you have endorsed generally the Commission's package.

You feel hospital workers should be covered by social security because they need that coverage as much as any other group in society.

I recognize that fact and am glad you would make that strong a statement.

Do any of you, after you have made your testimony—we are strained because of the time limitation we have—do you have a wish to make additional statements over and above your statement for the record?

Ms. **Fineshriber**. I had mentioned that we called your attention to the problems in Federal coverage on page 4 of our statement. I would just like to make this special note in that paragraph on page 4 that unless Congress acts by the end of 1983, newly hired Federal workers would pay 7 percent to social security and 7 percent to civil service retirement.

I think this is an important point that I am not sure I heard made before and I think this needs special consideration.

Chairman PICKLE. Point that out again to me.

Ms. FINESHRIBER. Page 4, second paragraph. The paragraph begins, "Among the questions raised by partial coverage are the following:"

Chairman PICKLE. All right.

Ms. FINESHRIBER. We raise the question, of course, in terms of current workers and current retirees and importance of getting the supplemental system in by 1983.

Chairman PICKLE. We are trying to get the type of information you ask because the Federal employees are entitled to know what kind of plan would we offer, and will their rate be protected, and do they have any assurance from the Government that it will follow through to protect their rights.

Ms. FINESHRIBER. We were reassured to note that the chairman of the two committees, Chairman Rostenkowski and Chairman Ford, were in touch with each other on that.

Chairman PICKLE. There is a clear understanding between the two chairmen that we are not going to invade the Post Office and Civil Service Committee's jurisdiction.

Ms. FINESHRIBER. Thank you.

Chairman PICKLE. But we are anxiously awaiting them to present their version of the plan.

In the absence of that, we are willing to make a positive statement on our own that the Federal Government workers have a right to know that their fund will be protected and will be reinforced by the faith of the Federal Government. So they are entitled to that assurance and we are trying to get that for them.

Ms. FINESHRIBER. Thank you.

Chairman PICKLE. Thank all of you.

Mr. Thomas, do you have a question?

Mr. THOMAS. Yes. Mrs. Thompson, on page 3 you indicated you are adamantly opposed to mandatory universal coverage for new Federal employees. But then on page 11 you make a series of requirements which, if met, you would support.

Is that my understanding of your testimony, that although you are opposed, if certain provisions were met as indicated on page 11, you would not be opposed to——

Mrs. THOMPSON. I think that was in the context of the fact that there must be a supplemental plan in place if in fact the civil service retirement system were covered. That would be that if in fact it were covered, you know, if that is a reality we would have to face, we would feel that should be in effect.

We do not have a plan now.

Mr. THOMAS. I understand your concern about a plan. One of the difficulties in this place is that we have to map out where we are going 2 years from now.

We do it as we are going, but in the exchange between Mrs. Fineshriber and the chairman I think you get the inkling that the plan is being written while we are going the course; that is, from a political point of view we are going to have to have some kind of an augmentation or supplemental pension program for those new Federal employees if we put them under social security. I think that is just a fact of life.

I think it also has to be comparable to what they have, perhaps not line by line, but basically comparable.

If that is the case, then would that remove your opposition from the package in terms of putting new Federal hires under?

Mrs. THOMPSON. Actually it really doesn't seem that clear to me, especially since I have listened to some of the differences in the testimony given before the subcommittee in terms of the economic impact.

I think that realistically we want to see a solvent system. We still are not convinced that it should be at the price of the civil service retirement system.

Mr. THOMAS. We could go through that. I am sure you have heard some say that maybe it isn't the best around in terms of cost to the Government. It is less important to us if we were losing something; but from the testimony I have heard there is much less a chance of us losing something. It is the individual employees who are most concerned. If they are held harmless, then I think they have to understand the difficulty they are placing us in in terms of trying to maintain support for a package which is a very, very tenuous one at best.

Let me say to all of you that I think most of the women's problems, and I think there are real women problems in dealing with social security today, would be handled with an earnings sharing provision.

But I want you to appreciate there are difficulties politically and also mechanically. It is easy to say that is a solution, but to work it through the system is going to take some time, because you are taking from someone and giving to someone else. That is equity, and you are looking for equity and there is no equity in the system now.

Although some of the provisions that have been offered might seem minor, we might also be able to come up with some additional minor modifications.

The direction we are working in is, I think, the right one. The solution is a kind of an earnings sharing, but it is going to be very difficult; it is very complicated. It should have been done yesterday, I know, but the sensitivity level is increasing, and going through this procedure this time around I think will produce tremendous advancements in the not too distant future on the entire package.

But the equity question is one we are not fully addressing because we simply can't, from a political point of view. I appreciate the testimony. I think the facts are irrefutable. They are there. They will not go away.

They will only intensify if the demographics continue in the direction they have. I appreciate very much your testimony.

Chairman PICKLE. We thank all of you ladies for your testimony. Your entire statements will be made a part of the record. I am glad the commission looked at women's rights.

We do not think this is final settlement of all the issues facing you because, as we approach the possible solution for shared earnings, we recognize it constitutes a real problem and costs, but we have got to continue to make improvements in this area.

As we go along during the year, coming year, we will be mindful of these in trying to get more equity for women's organizations, so we thank you in the meantime very much. It is very good to see you again, Ms. Skaggs. Thank you for your testimony.

Now the Chair is going to ask the indulgence of our guests to deviate a bit from the schedule. I am going to ask Congressman James Florio if he will take a position at the witness table at this point. He is a member of the Energy and Commerce Committee, chairman of the Subcommittee on Commerce, Transportation, and Tourism, and is interested in railroad retirement.

We are pleased to have you with us this morning and are glad to have your statement this morning.

STATEMENT OF HON. JAMES J. FLORIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, AND CHAIRMAN, SUBCOMMITTEE ON COMMERCE, TRANSPORTATION, AND TOURISM OF THE COMMITTEE ON ENERGY AND COMMERCE

Mr. FLORIO. Thank you. I would like to enter my statement in its entirety.

Chairman PICKLE. Go right ahead, Jim.

Mr. FLORIO. I know of your expertise in this area.

Our Committee, Energy and Commerce, has jurisdiction over railroad retirement and we share it with the Ways and Means Committee. The two systems, railroad retirement, and social security, are closely linked so changes in social security would directly affect railroad retirement.

As a result, it seems to me it is desirable we deal with these two crises at the same time.

The railroad retirement system faces serious financial problems. Under current law and if corrective action is not taken, benefits will be cut precipitously on October 1.

Let me say at the outset that I will do what I can to prevent this from happening.

Obviously, we didn't get to this situation overnight. The problems in railroad retirement parallel the problems we are facing concerning social security.

Two years ago the railroad retirement system was facing similar financial problems. Rail labor and management sat down and came up with a negotiated solution in the form of joint recommendations to Congress. Those recommendations were reviewed by Congress and subsequently incorporated in the budget and tax bills that were enacted in August 1981.

A crucial part of those recommendations were assumptions about employment levels in the railroad industry.

The recommendations assumed that employment would decline gradually over a period of years. If those assumptions had held true, the recommendations of labor and management would have ensured a sound system for the foreseeable future.

Unfortunately, those assumptions proved to be incorrect. The recession hit. Unfortunately, we have had the unemployment problems across the country that we do and in the railroad industry those problems have been particularly serious.

There has been a 20 percent drop in rail employment in a year and a half. In August 1981 we had 510,000 people in the rail industry. As of December 1982, we had 404,000 people in the rail industry.

This is a 20-percent drop, which has thrown all of the earlier employment assumptions out the window and we now have, again, shortfalls in the railroad retirement system.

Since the retirement system is funded primarily by payroll taxes, one can appreciate the fact that the drop in employment in the industry has resulted in reductions in revenues that have precipitated the current crisis.

The recession has also probably encouraged more railworkers to take early retirement, but unemployment has had another, less well-known effect.

The railroad unemployment insurance system is allowed to borrow from the railroad retirement system when its resources are insufficient to pay unemployment benefits.

These unemployment insurance benefit payments have greatly increased as more workers have become unemployed, while payroll tax revenues to the unemployment system have gone down as a result of that same unemployment.

So you can see what has happened is a combinationn of things that were not calculated to occur. As a result, we now are facing a serious crises in the railroad retirement.

Thus, the railroad retirement board projects a shortfall in revenue to pay retirement benefits in fiscal year 1984 of anywhere between $171 million and $548 million, depending on various assumptions.

Regardless of the accuracy of those assumptions, it is clear there will be a very drastic shortfall that could result in a 40 percent cutback in tier II benefits on October 1 of this year. I am hopeful we can avoid this irrational cutting of benefits.

The way to avoid that, if at all possible, is for rail labor and rail management to sit down and negotiate and attempt to formulate joint recommendations to submit to the Congress as to what changes have to be made in the system so that we can avoid drastic benefit cutbacks, provide fiscal integrity, and insure maximum tax equity in financing this system.

I have made my views clear that these joint recommendations, if they are to be forthcoming, must be forthcoming by the first of March at the absolute latest. My view, by the way, is shared by Congressman Lent, my ranking subcommittee member, and by Chairman Dingell, chairman of the full committee.

The March 1 date is particularly important in light of the pending social security legislation.

Since the two systems are so closely linked and are facing similar problems, this legislation may be an appropriate vehicle for also dealing with the problems of railroad retirement.

Furthermore, changes proposed for social security will likely require conforming changes in railroad retirement.

Now, I recognize the possibility that there will be problems in arriving at an agreement by March 1. It may well be that there is no incentive on the part of management to negotiate realistically because failure to negotiate results in automatic cutback of benefits. Some cynics say therefore management doesn't have a need to negotiate because they are not directly harmed as a result of a nonnegotiating posture.

In that situation I am fully prepared, and others are fully prepared, to introduce legislation despite the lack of any agreement that may be forthcoming.

This legislation would not be to the liking of either labor or management, but I suspect serves the public interest consideration of maintaining the railroad retirement system in an appropriate way.

In my view, if, in fact, there is no labor/management agreement, it will be necessary to take the legislative approach that will insure the funding of existing benefits. That would require primary dependence on a substantial tax increase—a tax increase that should be shared by both labor and management, but, in my opinion should rest more heavily on the railroads.

Since a tax increase of around 13 percent may be necessary to insure solvency, I believe the carriers should be prepared to pay 8 percent of that, and the employees prepared to pay 5 percent in the absence of an agreement.

I believe it would be entirely justifiable to have the carriers bear the lion's share of the tax increase in light of the improved financial condition of the industry as a result of the passage of the Staggers Rail Act that deregulated the industry and provided for more rate flexibility.

I think it is important to note that even in the deep recession, the railroad industry is doing rather well. We can hope that if we ever come out of this recession, the rail industry, with the tools this Congress provided to them, will be in the position to prosper and the public interest of this Nation will be served, I am convinced, by that prosperity.

This then is the approach that I would likely take in the absence of a labor/management agreement by March 1. I know neither my committee nor your committee, which has the jurisdiction over the tax aspects, is overly enthused about this approach to solving this problem.

Yet I think it is essential that we prepare to go in that direction absent a negotiated agreement between the parties. But I have to, in all candor, tell you that there are problems associated with this legislative approach and I hope that the parties, labor and management, will appreciate the problems associated with the approach that I am suggesting.

This approach may not be suited to the particular needs of both parties. Also, it should be obvious that rail management would not be happy with picking up the lion's share of this tax increase. It is an extremely risky approach because rail opposition may at some point be substantially powerful enough to kill this approach. That would leave us with the status quo that would trigger in the 40-percent cutbacks in existing tier 2 retirement benefits, so that rail labor should not be complacent about this legislative approach that I am talking about.

There would also be those who would argue that such a large tier 2 tax increase—on top of likely social security or tier 1 tax increases—would have harmful effects on particular railroads and that would just encourage management to lay off more employees or contract out more work to avoid tax increases.

This, some would claim, would only exacerbate the problems of the retirement system in the long run.

So, again, rail labor should not derive any great complacency over the introduction of this type of legislation.

On the other hand, since this approach would depend entirely on tax increases on the industry and management and would not involve any general revenue funding whatsoever, and in the absence of an agreement I do not believe it would be at all possible to consider this source of funding, I believe we can make the argument that this is fiscally responsible.

I will continue to urge management and labor to make the appropriate agreement, submit it to us and we would review it and hopefully incorporate it into the social security bill.

But the record in the past few months has not been one to give us a whole lot of optimism that that is going to take place. Introduction of legislation embodying the approach I have discussed and our seriousness of purpose in considering it and moving it through the legislative process may be the force that will turn around the parties to get about doing what they should have been doing in the first place.

So I would just urge you, Mr. Chairman and members of the committee, to realize that failure to take action would result in those hundreds of thousands of railroad retirees across the Nation experiencing drastic cutbacks in their benefits, and those individuals feel, and I think appropriately, that there have been commitments made to them through the course of their working lives that those benefits would be firm, those benefits would be benefits that they could rely upon.

I think it is incumbent upon the key actors, rail labor, rail management, to make the necessary modifications in a good spirit of bargaining, and then come to us with their recommendations.

But, as I said, in the last 6 or 7 months, I haven't seen an inclination for that to happen. In the failure of those two parties to take responsible action, I think it is incumbent upon the Congress to take action that neither of those parties may very well like, and perhaps in sending the signal that we are going to and are prepared to take that action, it may induce the responsible parties to take the action that is called for.

I thank you very much for your consideration and look forward to cooperating with your committee to start this process moving through the fast track that I know that you are on as you address the social security problems, and the very much related railroad retirement problems.

[The prepared statement follows:]

Statement of Hon. James J. Florio, a Representative in Congress From the State of New Jersey

I appreciate this opportunity to testify today. I know the Committee is considering ways to ensure a sound social security system. However, I wanted to make the Committee aware of similar serious financial problems facing the railroad retirement system.

As you know, jurisdiction over railroad retirement is shared by my Committee, Energy and Commerce, and Ways and Means. The railroad retirement system and social security system are closely linked, so that changes in social security would directly affect railroad retirement, As a result, it may well be that it would be desirable to deal with the serious problems facing both systems in the same piece of legislation.

The railroad retirement system faces serious financial problems. Under current law and if corrective action is not taken, benefits will be cut precipitously on October 1. Let me say at the outset that I will do what I can to prevent this from happening.

Obviously, we didn't get to this situation overnight, but it came upon us much faster than anyone expected.

Two years ago, the railroad retirement system was facing similar financial problems. Rail labor and management sat down and came up with a negotiated solution, in the form of joint recommendations to Congress. Those joint recommendations were reviewed by Congress and subsequently incorporated in the budget and tax bills that were enacted in August of 1981.

A crucial part of those recommendations were assumptions about employment levels in the railroad industry. The recommendations assumed that employment would decline gradually over a period of years. If those assumptions had held true, the recommendations of labor and management would have ensured a sound system for the foreseeable future.

Unfortunately, a severe recession hit. National unemployment hit a post World War II record. Railroad employment has been particularly hard hit, dropping precipitously from 510,000 in August of 1981, when the 1981 Amendments were enacted, to 404,000 in December of 1982—a 20 percent drop in less than a year and a half. The result has been disastrous for the railroad retirement system in more ways than one.

Since the railroad retirement system is funded primarily by payroll taxes, the drop in employment has resulted in a proportional drop in revenues to the system. At the same time, the recession has probably encouraged more railworkers to take early retirement. But unemployment has had another, less well known effect. The Railroad Unemployment Insurance System is allowed to borrow from the railroad retirement system when its resources are insufficient to pay unemployment benefits. These unemployment insurance benefit payments have greatly increased, while payroll tax revenues to the unemployment system have gone down, with the rise in unemployment. As a result, the unemployment system has had to borrow massive amounts of money from the retirement system—a debt that is currently around $400 million.

As a result, the Railroad Retirement Board projects a shortfall in revenue to pay retirement benefits in fiscal year 1984 of between $171 million and $548 million, depending on various assumptions. As a result, the Board will be forced to cut the Tier 11 benefits on October 1 of this year, perhaps up to 40 percent, if corrective action is not taken.

As I said, I will do everything I can to prevent this from happening. Corrective legislation will be needed very shortly to deal with this situation.

Rail labor and management have been negotiating in an attempt to formulate joint recommendations to submit to Congress and I know both sides acknowledge that changes need to be made to save the system. I have made clear my view that these joint recommendations must be submitted by March 1, at the absolute latest. This view is shared by Congressman Norman Lent, the ranking Republican on my Subcommittee, and by Chairman John Dingell of the full Energy and Commerce Committee.

The March 1 date is particularly important in light of the pending Social Security legislation. Since the two systems are so closely linked and are facing similar problems, this legislation may be an appropriate vehicle for also dealing with the problems of railroad retirement. Furthermore, changes proposed for social security will likely require uniforming changes in railroad retirement.

Now, I recognize the possibility that there will be no agreement by March 1. It may well be that management is making excessive and unreasonable demands. Obviously, if benefits get cut on October 1, management has little to lose.

In that situation, I will be fully prepared to pursue legislation despite the lack of an agreement. This legislation may not be completely to the liking of either labor or management. Since there would be no labor-management agreement, I believe it would be necessary to take a simple approach that would ensure the full funding of existing benefits. That would require primary dependence on a substantial tax increase—a tax increase that should be shared by both labor and management, but should rest more heavily on the railroads. Since a tax increase of around 13 percent may be necessary to ensure solvency, I believe the carriers should be prepared to pay 8 percent of that, and the employees 5 percent, in the absence of an agreement.

I believe it would be entirely justifiable to have the carriers bear the lion's share of the tax increase, particularly in light of the improved financial condition of the industry as a result of the passage of the Staggers Rail Act that partially deregulated the industry. Even in this deep recession, the railroad industry has kept its head well above water.

This, then, is the approach I would likely take in the absence of a labor-management agreement by March 1. I know neither my Committee nor your Committee, which has the jurisdiction over taxes, would find this approach particularly appealing. Moreover, I believe several very strong caveats are in order.

First of all, this approach may not be well suited to the particular needs of both parties. The way to take care of these needs is for the parties to have a joint agreement.

It should also be obvious that railroad management would vigorously oppose this approach. There would be an extremely large risk that railroad opposition could kill this bill. If that happens, we face benefit cuts on October 1 and a railroad retirement system in shambles.

There would also be those who would argue that such large Tier 2 tax increases—on top of likely social security or Tier 1 tax increases—would have harmful effects on particular railroads or would just encourage management to lay off more employees or contract out more work to avoid the tax increases. This, some would claim, would only exacerbate the problems of the retirement system in the long run.

On the other hand, since this approach would depend entirely on tax increases on the industry, it would not involve any general revenue funding whatsoever. And, in the absence of an agreement, I do not believe it would be at all possible to consider this source of funding. Thus, this would be a completely fiscally responsible approach.

Nevertheless, I think both labor and management can see the large risks inherent in this approach. If there is no agreement, I will be fully prepared to pursue this approach, despite these risks, because I believe it is our moral obligation to do everything we can to prevent benefits to retirees from being cut on October 1.

However, the needs of both labor and management may well be far better met through agreeing on joint recommendations to Congress by March 1. I am still hopeful that we will see an agreement by that date. In that event, my Committee will be prepared to work with the Ways and Means Committee to try to achieve an expeditious and fair resolution of this important issue.

Chairman PICKLE. Well, I thank you, Congressman Florio. I want to say at the outset that I am sympathetic with the problems you face. I sat for years on the Commerce Committee. I know we both understand we have got a future problem, and we are trying to find a solution.

In the past we have always relied on management and labor agreements. That is the way it should be.

I am encouraged the parties are meeting, and we hope that they can reach some kind of an agreement.

You said in your testimony that it might need a tax increase of approximately 13 percent to assure solvency of the railroad fund. You proffered the observation that carriers should be able to pay 8 percent and employees pay 5 percent. My question to you is, is there any negotiation being undertaken at this point? Is there serious negotiation under way?

Do you believe we have a chance of getting this kind of agreement from the parties?

Mr. FLORIO. In response to your question, Mr. Chairman, there are meetings. As to whether they are serious negotiations or not is somewhat subjective. The feeling of some of the observers at these meetings is that the reason why the meetings are not resulting in good-faith efforts is the lack of equal bargaining power between the parties.

One side says there should be some modifications in benefits. On the other hand, the point is made that there should be some tax increases. Then, of course, you get into a fight as to who is going to shoulder the biggest burden of the taxes.

But the key point is that as of now there is not equal pressure on both of the parties to come to those negotiations, because the law is such that on the 1st of October, the Railroad Retirement Board must modify downward benefits to a level commensurate with the revenue that is there.

That is going on, because of the reduction in revenue because of unemployment, because of other considerations, that will translate into a mandatory reduction of 40 percent of Tier 2 benefits. And some would say, well, then, why should management do anything? They have no price to pay. They have all of the benefits of inertia and inaction.

If that is not an accurate description of what is going on, well, so be it. But I think what is necessary is to first of all acknowledge that there has been no great progress made even though there have been negotiations going on. I think there has to be the congressional response prepared for the eventuality that there is no agreement.

Chairman PICKLE. The course you outlined is a possibility. I don't think I will comment on whether I think that is the course. I think it is a decision you and the Commerce Committee will have to decide, whether you would introduce legislation. I would say that the Railroad Retirement Fund has expressed the wish that we would advance funds to them to help them bolster up their particular fund. We don't have the funds to be advancing. We have great difficulties of our own to try to maintain solvency.

I would insist and say publicly that they ought to get together and give us a solution for what they think would be some kind of an answer to it. I hope they can do it by the time schedule you have recommended. However, I think we ought to withhold our judgment.

Mr. FLORIO. I appreciate that. At the same time, it is nice to convey to the parties that they should go forward. And we have done that with great frequency. But I think there is nothing that will induce the parties to actually do that more than for them to see that this committee is seriously contemplating an alternative approach that would be more burdensome potentially to those parties than their doing nothing.

If we see some serious movement, that may well be the thing that will trigger some response that I think we all feel is an appropriate response.

Chairman PICKLE. Any questions? Mr. Jacobs.

Mr. JACOBS. Other than to thank Mr. Florio for his helpful statement.

Chairman PICKLE. Mr. Thomas.

Mr. THOMAS. You indicated the ranking member of the subcommittee, Congressman Lent from New York, shared your view that the parties should come to some agreement by March 1. That, I assume, is the only thing that he shares with you. I assume he does not agree that it ought to be an 8-percent to 5-percent split, or has he commented to you on what his thoughts were on that?

Mr. **Florio**. Mr. Lent is in agreement with me on the importance of an agreement. And Mr. Madigan, a former ranking member of my subcommittee, is a cosponsor of a bill that was introduced in the last session that is similar to this concept. And certainly Mr. Lent shares my deep concern with the need to avoid the drastic consequence of doing nothing and having these automatic 40-percent cutbacks take place on the 1st of October.

Mr. **Thomas**. Does he agree with the percentage split you have arbitrarily selected as the reasonable solution between management and labor?

Mr. **Florio**. Mr. Lent certainly agrees that solving the financial problems facing railroad retirement must be a priority matter.

Mr. **Thomas**. The tax increase then is the preferred solution. But as to who pays what, there is no agreement?

Mr. **Florio**. The percentage has not been agreed to by everyone.

Mr. **Thomas**. So, neither the percentage nor the percentage split. That is my concern in terms of specific legislation to solve the problem between management and labor. I heard it could do a lot of things but I think one was going to be a negotiator on what split was——

Mr. **Florio**. If I could add one point, the total percentage is agreed to by everyone as to what is required to avoid triggering this automatic cutting-back process, which I think everyone acknowledges is undesirable.

Mr. **Thomas**. But there are other ways to achieve the same dollar amounts?

Mr. **Florio**. That is correct.

Mr. **Thomas**. I thank the gentleman very much for his testimony.

Mr. **Matsui**. You impressed other parties that they better negotiate because we are not in a position to help. We are in a position to cooperate and try to be as helpful in as many ways as we can. But I see your problem. I see your deadline. I hope the parties are negotiating in good faith. They should do that.

Mr. **Florio**. I would note parenthetically that I suspect members of the Ways and Means Committee, as other members of this Congress, will be hearing very directly from railroad retirees across the Nation before too long when they get the first notifications of a 40-percent cut in their retirement checks. We are not talking about prospective cuts. We are talking about cuts for all those that are currently receiving benefits, so this is something we are all required to face one way or the other.

Mr. **Matsui**. We are anticipating some mail on the subject too.

Mr. **Florio**. Thank you very much.

Mr. **Matsui**. Mr. Thomas.

Mr. **Thomas**. You indicate we were on a fast track. To the degree we add more cars to this train, that track isn't going to be moving very fast.

Mr. **Florio**. I appreciate that.

Mr. **Matsui**. Thank you, Jim, very much.

Now the Chair asks Mr. Jack Owen, Mr. Robert Morris, Mr. Allen Hicks, Mr. John Gavras, Mr. Howard Rohan, and Mr. Richard Cipoletti to take their positions at the table.

Mr. Jack Owen is executive vice president of the American Hospital Association.

Will you raise your right hand, Mr. Owen? I am going to follow my list. Robert Morris is vice president of the Charleston Area Medical Center, representing the Voluntary Hospitals of America. Mr. Morris.

Mr. Crews. I am substituting for Mr. Morris.

Mr. Matsui. What is your name?

Mr. Crews. James C. Crews. I am the president——

Mr. Matsui. James Crews?

Mr. Crews. Yes.

Mr. Matsui. Then we have Allen Hicks, president of the Community Hospital of Indianapolis. Then we have Mr. John Gavras, president of the Dallas-Fort Worth Hospital Council. Mr. Howard Rohan, vice president of Human Resources of the Samaritan Health Services. And Mr. Richard Cipoletti, who represents the assistant administrator of the Lehigh Valley Hospital Center. We will start off asking you, Mr. Owen, to give us your testimony. Then we will go down the list as you are seated, if that is agreeable to you.

We will ask you to summarize your statement and stay within the 5-minute confines. The Chair wants to say also we are going to try to go right through lunch, so if other groups are waiting, it is our intent to do that because we have four more panels due today. So we will be at this at length today. We will now ask you, Mr. Owen, to give your testimony. All your prepared statements will go in the record.

STATEMENT OF JACK W. OWEN, EXECUTIVE VICE PRESIDENT, AMERICAN HOSPITAL ASSOCIATION

Mr. Owen. Thank you. I would like to commend the commission and the committee for the fast way in which you have tackled this difficult problem. The American Hospital Association does endorse the recommendations of the commission, and I would just like to bring one point to your attention which we are concerned about. That has to do primarily with interfund borrowing.

Clearly, the aging of the population we have is going to increase, and utilization of health services and higher intensity will continue. Almost 43 percent of all hospital expenditures are related to those over 65.

We understand that it was very expedient to draw upon the medicare funds in the current crisis to allow the social security payments to be made without interruption. However, we would recommend against a continuation of this activity because it is only going to further aggravate the financial problems of the hospital insurance fund.

Moreover, we would urge that nearly $17 billion that has already been borrowed be repaid in a timely manner. We are very concerned from the figures we have seen that the next crisis we may be facing is the hospital insurance trust fund and that there may be not enough funds after 1987 to continue to pay for any of the services we have now.

We would urge the committee to look strongly at continuation of the borrowing.

Thank you, Mr. Chairman.

Mr. MATSUI. Thank you very much, Mr. Owen.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN HOSPITAL ASSOCIATION

Mr. Chairman, I am Jack W. Owen, Executive Vice President of the American Hospital Association and Director of the Association's Washington Office. AHA is the principal national organization of hospitals, representing 6,300 institutions and 35,000 personal members in an industry employing 3.3 million individuals.

I am pleased to have this opportunity to present some of our concerns in regard to the current Social Security reform debate. I also want to commend you and your colleagues on the committee for the expeditious manner in which you are attempting to address some difficult problems confronting a program that affects every citizen of this country.

The AHA views Social Security issues from a dual perspective as an association representing both major employers as well as major health care providers. As employers in a highly labor-intensive industry, we are concerned about increased costs to employees and employers that will result from the recommendation of the National Commission on Social Security Reform to revise and accelerate increases in the payroll tax schedule. As you know, hospitals are under great pressure to contain costs, and labor and labor-related costs account for over 50 percent of all hospital expenditures.

As health care providers, we are concerned about the current and future stability of the Hospital Insurance (HI) trust fund and the commission's recommendation to extend interfund borrowing through 1987. While the commission's recommendations generally may form the basis for a workable short-term solution to the Social Security problem, it would be unfortunate if part of this solution would exacerbate the crisis that looms in Medicare financing.

HI STRUCTURAL PROBLEMS

At the start, it is critical to recognize that HI finds itself in the same dilemma as the Social Security system. It is confronted with problems such as profound demographic changes, increasing benefit expectations, advances in medicine, economic growth, and inflation. Perhaps most significant of these factors is that our elderly population represents the fastest growing segment of our population.

CONSIDER THESE PROJECTIONS

The number of persons covered by Medicare has grown from 19 million in 1967 to 25 million in 1982 and is expected to reach 32 million by the turn of the century;

The total population age 65 and over stood at 24.9 million persons in 1980 and will increase to 31.8 million by the end of the century—an increase of 27 percent;

The growth of the elderly population will begin to rise dramatically around 2015 and continue to increase, peaking in 2030, when the effect of the "baby boom" will be fully realized and the elderly will comprise approximately 18 percent of the total population;

Another significant factor is the graying of the population age 65 and over. Between 1980 and 1999, the population aged 75–84 will increase by nearly 50 percent. During the same period, the population aged 85 and over is projected to increase 61 percent; and

The average male life expectancy increased from 66.8 years in 1965 to 69.9 in 1979. For females, it increased from 73.7 to 77.8 years.

EFFECTS OF AGING POPULATION

The aging of the population already has, and will continue to result in increased utilization of health care at higher levels of intensity. Persons aged 65 and over account for nearly 30 percent of all personal health care expenditures and 43 percent of all hospital expenditures.

AHA utilization projections indicate that hospital use by the elderly will account for approximately 35.2 million more days of hospital care in 1989 than in 1980. Fifty-two percent of 18.4 million days will be due to population growth, and 48 percent or 16.8 million days will be due to the increase in the inpatient day use rate.

Hospital expenditures per capita also increase with age. For those over age 65 it is $869 per capita, compared with $370 per capita for those between 19 and 64. Moreover, the percentage of the population suffering from chronic conditions increases from 8.9 percent in the 17 to 44 age group, to 24.1 percent in the 45 to 64 age group, to 46.4 percent for those over 65.

IMPACT OF ECONOMY

Economic conditions such as high unemployment have also contributed to the financial problems of HI as well as the entire Social Security system. According to some estimates, a 1-percent increase in the unemployment rate reduces HI income by about $1 billion.

HI OUTLOOK

These circumstances have led many to conclude that HI will be depleted by the end of the decade. If interfund borrowing from HI is used again in 1983 to shore up the other funds, actuaries predict that HI could be bankrupt even sooner.

There is ample evidence to support these views. For instance, some estimates indicate that the HI tax rate, currently 1.30 percent and scheduled to rise to 1.35 percent in 1985 and 1.45 percent in 1986 will be inadequate to support future obligations by 1989. By 1995, it is predicted that the HI tax rate would have to be over 2.0 percent to ensure adequate revenues.

Again, one cannot overlook the structural nature of this problem. During the next 75 years it is estimated that the average annual deficit in HI will be about 5.0 percent of taxable payroll. It is also predicted that the Supplementary Medicare Insurance (SMI) portion of Medicare which is financed by general revenues and the premiums of participants will also face serious financial problems.

INTERFUND BORROWING

While these problems are serious and require Congressional attention, as a practical matter we recognize that the most immediate issue facing the committee in regard to HI is the commission's recommendation to continue interfund borrowing through 1987.

The AHA understands that it was expedient to draw upon Medicare funds in the current crisis to permit monthly Social Security payments to be made without interruption. However, we would recommend against a continuation of this policy because it will further aggravate the financial problems of HI. Moreover, we urge that the nearly $17 billion that has already been borrowed be repaid in a timely and specified manner.

The Advisory Council on Social Security of the Department of Health and Human Services (HHS) which is examining Medicare issues also recognized the importance of this matter and recently wrote former Secretary Richard Schweiker to express concerns about continued interfund borrowing.

SUGGESTIONS TO STABILIZE HI

We are also aware of the impact of rising hospital and health care costs on the HI equation. In fact, hospitals have already played a large role in containing costs.

As you know, this past summer Congress made sweeping changes in the Medicare program to limit payments to hospitals under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). TEFRA modified and expanded Section 223 limits to cover inpatient costs per admission on a cost-per-case rather than on the previous per-diem basis. In addition, hospitals for the first time were placed under an "incentive" target rate equal to the hospital market basket plus 1 percent for technology. The target permits hospitals to collect a "bonus" if costs are below that rate, and penalizes them 75 percent of costs above the target rate for the first two years of the program and 100 percent in the third year. Estimated savings to the federal government are about $6 billion through Fiscal Year 1985 under both the Section 223 and target rate provisions.

One effective approach to help ensure HI stability on the hospital expenditure side would be to end narrowly focused tinkering with the Medicare reimbursement system and adopt a prospective payment system under Medicare that provides the proper incentives to encourage efficiency. In April of 1982, AHA took the initiative in proposing a Medicare prospective payment plan to make hospital payments more predictable and to control the increase in hospital costs. While the Congress did not enact our proposal, it did require the HHS Secretary to develop a Medicare prospective payment proposal, which was forwarded to you this past December. According to the Congressional Budget Office, a Medicare-only prospective payment system would have a "profound impact" on hospital decisions and would result in Medicare cost reductions.

But it is also important to realize that prospective payment, along with other demand-side initiatives such as ceilings on tax-free employer purchased health benefits, introducing competition into the health care system, and benefit design changes are only short-term solutions that yield moderate savings in the context of the overall HI problem.

If the Medicare program is to continue to provide the high quality health care services that our nation's senior citizens deserve, it will require more than the short-term solutions just suggested. It will also require a mix of additional reforms that will increase HI revenues in the long run. This could be accomplished through earmarking certain excise taxes for HI or increasing HI payroll tax rates to levels able to support the system.

The AHA looks forward to working with you and the committee in developing a balanced approach that will ensure the long-term solvency of HI.

OPT-OUT

There has also been considerable controversy concerning the filing of notices by non profit hospitals and other non profit organizations to withdraw from the Social Security system. While AHA does not encourage hospitals to leave the system, until Social Security becomes universal we favor that option.

We do recognize, however, the widespread support on the part of the National Commission on Social Security Reform and the Congress to take a more universal approach, and we support efforts that move the system in this direction.

It is also important to note that most hospitals that have withdrawn from the Social Security system have provided alternative benefit plans to their employees. Many hospitals have implemented such plans with the support and cooperation of their employees, and where appropriate, the unions representing those employees. Reentering the Social Security system will require that these hospitals again restructure their benefit and retirement programs and renegotiate contractual obligations made to employees and others. Therefore, AHA recommends that hospitals and other non profit organizations that are currently outside the Social Security system be allowed a phase-in period so that they may make the necessary changes to their benefit programs or contractual obligations.

SUMMARY

In summary, AHA believes that the recommendations of the National Commission on Social Security Reform may form the basis for a workable short-term solution to the problems faced by the Social Security system.

However, AHA believes that the recommendation by the commission to continue interfund borrowing from HI is seriously flawed because of its potential impact on Medicare. AHA also urges that any previously borrowed should be repaid in a timely and specified manner.

The AHA is also concerned about the future stability of HI and recognizes that it suffers from the same demographic problems faced by the Social Security system as a whole. These problems include a rapidly expanding elderly population and its increased utilization of health care services at higher levels of intensity. Other factors contributing to HI's financial instability are poor economic conditions, the high cost of medical technology, and inadequate HI payroll tax rates needed to support the system.

The AHA supports payment under Medicare as a method of making hospital payments more predictable and restraining the rate of increase in hospital costs. However, prospective payment and other demand-side initiatives provided only short-term solutions. Long-term answers involve the need to provide HI with increased revenues.

Mr. Chairman, we appreciate the opportunity to present our views and look forward to working with you and the committee on addressing some of these difficult problems.

Thank you very much.

Chairman PICKLE. Now I will recognize Mr. John Gavras, president of the Dallas-Fort Worth Hospital Council. I have had the privilege of talking with Mr. Gavras about some of his concerns, and will be mindful of your testimony and wishes.

STATEMENT OF JOHN C. GAVRAS, PRESIDENT, DALLAS-FORT WORTH HOSPITAL COUNCIL

Mr. GAVRAS. Thank you, Mr. Chairman.

I am John C. Gavras, president of the Dallas-Fort Worth Hospital Council. The council is a nonprofit organization representing six member institutions, all of which are hospitals located in the greater Dallas-Fort Worth area. I am here today to testify on behalf of five nonprofit member hospitals.

Since 1934, when Congress instituted the social security program, nonprofit organizations have been exempt from mandatory social security coverage. Indeed, under the regulatory regime that has been in place for these many decades, nonprofit organizations have been required to elect to participate in social security or find another method to provide their employees with comparable social security benefits.

Many nonprofit organizations have developed their own employee benefit plans and have never participated in the system; for various reasons, many others have left the system over the years and shaped their own employee benefit arrangements. Now, in a report that was issued in January of this year, the National Commission on Social Security Reform has recommended mandatory coverage of all employees of nonprofit organizations, effective as of January 1, 1984.

Let me say at the outset that we recognize that our Nation faces a serious and immediate need to stabilize and strengthen the social security system. In our view, the Commission has done a commendable job in developing a relatively balanced set of proposals to provide near-term support for the social security system. The Commission has called upon all Americans—young and old, employer and employee, those who have participated in the past and those who have not—to rescue the program.

I am not here today to ask you to exempt nonprofit hospitals from sharing in this rescue effort. It seems to me that ordinarily it would be fair to suggest that organizations that have never participated in the social security system, or have chosen to participate no longer, under rules sanctioned in the past by Congress as being consistent with Federal policy, should, in effect, be grandfathered if such rules are to be changed.

Indeed, the Commission has chosen to treat State and local governments in this fashion. I prefer this method of treatment for nonprofit hospitals because I believe it to be most fair.

The Commission has recommended the Federal Government begin to participate in the social security program. The Federal Government has in the past operated a separate pension program for its own employees and, understandably, ought to be permitted a transition period during which it can move into full participation in social security. As a result, the Commission recommended that only new Federal employees be required to participate in the social security program, thus providing a gradual phase-in.

To repeat, you have been advised to provide a transition period for the Federal Government. You have been advised to grandfather permanently a whole class of State and local governments, some of which operate hospitals that compete with nonprofit health care institutions. Yet, no real adjustment period has been suggested for nonprofit organizations.

While I am prepared to accept the recommendation that nonprofit hospitals ought to join the ranks of other Americans in solving the problems facing the social security program, I do not understand why of all the parties being required to join or rejoin the social security system, a unique burden is to be imposed upon nonprofit health care organizations.

A transition period ought to be permitted so these organizations can adjust their pension programs, revise their multiyear budgets, accommodate the many changes that will be required under this new federal system, and give protection to older workers covered by private plans who are nearing retirement.

We understand Government records show there are 36 nonprofit health care organizations which have withdrawn from social security. Requiring every single one of these organizations to participate immediately in social security will only generate approximately $425 million in revenue for the social security system for the rest of the decade.

If the rule proposed for Federal employees is adopted for these same 36 organizations, revenue flowing into the social security system from them will still amount to approximately $260 million over the rest of the decade. Thus, if the Federal employee rule is applied to these nonprofit health care institutions, most of the revenue sought to be raised by the Commission from these institutions over the short term would in fact be raised, and the nonprofit hospitals would at the same time be granted a meaningful and important transition period within which to come into the system.

Nonprofit organizations consist of religious, educational, health care, and other types of service organizations. I do not intend to address special concerns of all nonprofit institutions here today, because my expertise is directed to the special problems and conditions of nonprofit health care institutions.

Out of fairness and an appreciation for other important Federal policies and goals in the health care area that I do not believe the Commission considered, I believe a phased transition into social security for nonprofit hospitals is appropriate.

First, although it may appear elementary, I want to stress that a "nonprofit health care institution" is just what its name implies. It is an institution that provides health care services, with excess revenues over expenses being channeled into medical education, purchase of equipment, and the provision of medical care for the indigent. It does not pay dividends to wealthy investors.

It cannot be found in the financial pages of the Wall Street Journal. It relies heavily upon contributions and donations that are made by voluntary civic and religious organizations. The only dividends that it is motivated to pay and does pay are its own contributions to the general public in the form of medical research, education, and free or below-cost medical care to the medically needy.

For example, five of the member institutions represented here today provided a total of $9,203,289 in medical research and education during their last fiscal year. These same five member institutions provided a total of $4,675,898 in indigent care during this same fiscal year. Of this, $3,687,436 was in excess of their mandated Hill-Burton obligation.

These same institutions are also the ones that provide medical services which are far too costly to be monetarily profitable, such as the provision of kidney transplantation and specialized neonatal intensive care services. I do not intend to criticize the investor-owned hospital, but I want to stress that these critically important, valuable, and expensive services are generally and predominantly provided in our country by health care institutions that do not operate for profit, but use whatever remaining funds they have from year to year to support such services.

We have found in Texas that the nonprofit health care institutions that carry the largest social obligations are those nonprofit hospitals serving large urban metropolitan areas. These are areas that are traditionally not served by investor-owned institutions, for whatever reason.

It is precisely these hospitals that are generally experiencing the most substantial cost pressures, and it is these hospitals who have tried to find a most cost-effective way of providing employee benefits for their employees.

A unique, additional problem that will now inadvertently and unfairly confront nonprofit health care institutions that must join or rejoin the social security system will be the inability of such institutions to recoup through medicare any of their sudden increase in retirement costs. The Tax Equity and Fiscal Responsibility Act of 1982 [TEFRA] provides an additional medicare reimbursement limitation to be imposed upon inpatient health care service providers.

This limitation applies to all cost reporting periods beginning on or after October 1, 1982. It limits medicare reimbursement to a targeted amount of acceptable cost increases. This targeted amount is 7.9 percent in 1983 and 8.6 percent in 1984. Hoispital costs are presently increasing at a rate of 14 percent per annum.

The target rate limitation rules contain an inherent unfairness when one realizes that any increased social security costs will not be a part of a hospital's base year for purposes of applying the 7.9 percent and 8.6 reimbursement caps.

Thus, for all practical purposes, increased social security costs will go unreimbursed for medicare purposes. Fairness requires change to the new TEFRA medicare rules to allow a complete pass through of unexpected, increased social security costs for purposes of the target rate limitation, as happens in the case of capital and equipment expenditures.

While I do not want to take the committee's time to address health issues generally, I do want to ask the members of the committee an important question. We are in an era of health care cost containment. Hospitals are facing $1.7 billion in medicare costs cuts in 1983. We are mandated to provide indigent care by the Federal Government. We have been paid, and continue be paid, less than our cost by the medicare program. The elderly population continues to grow, and with it, the subsidy required from our hospitals to cover the shortfall in the cost of operating our Nation's medicare system.

Gentlemen, if Congress continues to place additional monetary burdens on the country's health care system—like that of increased social security costs—where will the member institutions of that system, particularly those that are nonprofit, obtain the funds required to continue to provide the type of medical care the citizens of our great Nation have come to deserve and expect? Only painful alternatives emerge—increasing charges for services, cutting back on some services—for example, indigent care and medical education and research—or both.

In addition to considering the effects of mandatory imposition of social security coverage on nonprofit health care institutions and health care cost containment policies, Congress must also consider the effect of such decision on the hospitals' employees. Older hospital employees may be too old to obtain the 10 years of participation required to qualify for social security benefits.

Thus, by mandating that such individuals be included in social security, the Commission's proposal, if adopted by Congress, will force both the employee and the employer to contribute to a system under which the employee has no hope to obtain any return. At the same time, Congress is effectively foreclosing the employee's ability to participate in his present retirement plan and to accrue further meaningful benefits. In essence, Congress is asking this category of employees to bear a hardship that seems inequitable.

A 58-year-old employee is suddenly required to pay into the social security system for 7 years. At age 65 he will not receive one dime of social security benefits and will lose 7 years of contribution to the private plan.

In sum, we recommend that nonprofit health care institutions be subject to mandatory social security coverage, but through a phase-in approach like that recommended for the Federal Government employees. In addition, we recommend that the TEFRA medicare amendments be changed to allow increased social security and related payroll costs resulting from mandated coverage to be fully reimbursed by medicare.

Thank you, Mr. Chairman.

Chairman PICKLE. Thank you, Mr. Gavras.

[The prepared statement follows:]

STATEMENT OF JOHN C. GAVRAS

I am John C. Gavras, President of the Dallas-Fort Worth Hospital Council (Council). The Council is located at 2708 Inwood Road, Dallas, Texas 75235 (214-357-0139). The Council is a non-profit organization representing 86 member institutions, all of which are non-profit hospitals located in the greater Dallas/Fort Worth area. I am here today to testify on behalf of certain member hospitals affected by the pending Social Security reform proposal, including Baylor University Medical Center, Fort Worth Osteopathic Medical Center, Harris Methodist Health Systems, Memorial Hospital of Garland and Methodist Hospitals of Dallas. These five hospitals provide 4,354 hospital beds for greater Dallas-Fort Worth.

DISCUSSION

Since 1934, when Congress instituted the Social Security program, non-profit organizations have been exempt from mandatory Social Security coverage. Indeed, under the regulatory regime that has been in place for these many decades, non-profit organizations have been required to elect to participate in Social Security or find another method to provide their employees with comparable Social Security benefits. Many non-profit organizations have developed their own employee benefit plans and have never participated in the system; for various reasons, many others have left the system over the years and shaped their own employee benefit arrangements. Now, in a report that was issued in January of this year, the National Commission on Social Security Reform ("Commission") has recommended mandatory coverage of all employees of non-profit organizations, effective as of January 1, 1984.

Let me say at the outset that we recognize that our nation faces a serious and immediate need to stabilize and strengthen the Social Security system. In our view, the Commission has done a commendable job in developing a relatively balanced set of proposals to provide near-term support for the Social Security system. The Commission has called upon all Americans—young and old, employer and employee, those who have participated in the past and those who have not—to throw in to rescue the program.

I am not here today to ask you to exempt non-profit hospitals from sharing in this rescue effort. It seems to me that ordinarily it would be fair to suggest that organizations that have never participated in the Social Security system, or have chosen to participate no longer, under rules sanctioned in the past by Congress as being consistent with Federal policy, should, in effect, be "grandfathered" if such rules are to be changed. Indeed, the Commission has chosen to treat state and local governments in this fashion. However, even though I prefer this method of treatment for non-profit hospitals because I believe it to be most fair, I will not recommend it today.

The Commission has recommended that the Federal government begin to participate in the Social Security program. The Federal government has in the past operated a separate pension program for its own employees and, understandably, ought to be permitted a transition period during which it can move into full participation in Social Security. As a result, the Commission recommended that only new Federal employees be required to participate in the Social Security program, thus providing a gradual phase-in.

Frankly, Mr. Chairman and members of this distinguished Committee, I believe the Congress, at the very least, and in a spirit of fairness, ought to adopt the same approach that has been recommended for Federal employees in the case of employees of non-profit hospitals that are outside the Social Security system at this time.

To repeat, you have been advised to provide a transition period for the Federal government. You have been advised to grandfather permanently a whole class of state and local governments, some of which operate hospitals that compete with non-profit health care institutions. Yet, no real adjustment period has been suggested for non-profit organizations. While I am prepared to accept the recommendation that non-profit hospitals ought to join the ranks of other Americans in solving the problems facing the Social Security program, I do not understand why of all the parties being required to join or re-join the Social Security system, a unique burden is to be imposed upon non-profit health care organizations. A transition period ought to be permitted so that these organizations can adjust their pension programs, revise their multi-year budgets, accommodate the many changes that will be required under this new Federal regime, and give protection to older workers covered by private plans who are nearing retirement.

We understand that government records show that there are 36 non-profit health care organizations which have withdrawn from Social Security. Requiring every single one of these organizations to participate immediately in Social Security will only generate approximately $425,000,000 in revenue for the Social Security system for the rest of the decade. If the rule proposed for Federal employees is adopted for these same 36 organizations, revenue flowing into the Social Security system from them will still amount to approximately $260,000,000 over the rest of the decade. Thus, if the Federal employee rule is applied to these non-profit health care institutions, most of the revenue sought to be raised by the Commission from these institutions over the short-term would in fact be raised, and the non-profit hospitals would at the same time be granted a meaningful and important transition period within which to come into the system.

Non-profit organizations consist of religious, educational, health care and other types of service organizations. I do not intend to address special concerns of all non-profit institutions here today, because my expertise is directed to the special problems and conditions of non-profit health care institutions. Out of fairness and an appreciation for other important Federal policies and goals in the health care area that I do not believe the Commission considered, I believe a phased transition into Social Security for non-profit hospitals is appropriate.

First, although it may appear elementary, I want to stress that a non-profit health care institution is just what its name implies. It is an institution that provides health care services, with excess revenues over expenses being channeled into medical education, purchases of equipment and the provision of medical care for the indigent. It does not pay dividends to wealthy investors. It cannot be found in the financial pages of the Wall Street Journal. It relies heavily upon contributions and donations that are made by voluntary civic and religious organizations. The only dividends that it is motivated to pay and does pay are its own contributions to the general public in the form of medical research and education and free or below cost medical care to the medically needy.

For example, five of the member institutions represented here today provided a total of $9,203,289 in medical research and education during their last fiscal year. these same five member institutions provided a total of $4,675,898 in indigent care during this same fiscal year. Of this, $3,687,436 was in excess of their mandated Hill-Burton obligation. These same institutions are also the ones that provide medical services which are far too costly to be monetarily profitable, such as the provision of kidney transplantation and specialized neo-natal intensive care services. I do not intend to criticize the for-profit hospital, but I want to stress that these critically important, valuable, and expensive services are generally and predominantly provided in our country by health care institutions that do not operate for profit, but use whatever remaining funds they have from year to year to support such services.

We have found in Texas that the non-profit health care institutions that carry the largest social obligations are those non-profit hospitals serving large urban metropolitan areas. These are areas that are traditionally ignored by for profit institutions, for whatever reason. It is precisely these hospitals that are generally experiencing the most substantial cost pressures, and it is these hospitals who have tried to find a more cost-effective way of providing employee benefits for their employees.

A unique, additional problem that will now inadvertently and unfairly confront non-profit health care institutions that must join or re-join the Social Securty system will be the inability of such institutions to recoup through Medicare any of their sudden increase in retirement costs. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provides an additional Medicare reimbursement limitation to be imposed upon in-patient health care service providers. This limitation applies to all cost reporting periods beginning on or after October 1, 1982. It limits Medicare reimbursement to a targeted amount of acceptable cost increases. This targeted amount is 7.9 percent in 1983 and 8.6 percent in 1984. Hospital costs are presently increasing at a rate of 14 percent per annum.

The target rate limitation rules contain an inherent unfairness when one realizes that any increased Social Security costs will not be a part of a hospital's base year for purposes of applying the 7.9 percent and 8.6 percent reimbursement caps. Thus, for all practical purposes, increased Social Security costs will go unreimbursed for Medicare purposes. Fairness requires change to the new TEFRA Medicare rules to allow a complete pass through of unexpected, increased Social Security costs for purposes of the target rate limitation, as happens in the case of capital and equipment expenditures.

While I do not want to take the Committee's time to address health issues generally, I do want to ask the members of this Committee an important question. We are in an era of health care cost containment. Hospitals are facing $1.7 billion in Medicare costs cuts in 1983. We are mandated to provide indigent care by the Federal government. We have been paid, and continue to be paid, less than our cost by the Medicare program. The elderly population continues to grow, and with it, the subsidy required from our hospitals to cover the shortfall in the cost of operating our nation's Medicare system. Gentlemen, if Congress continues to place additional monetary burdens on the country's health care system (like that of increased Social Security costs), where will the member institutions of that system, particularly those that are non-profit, obtain the funds required to continue to provide the type of medical care the citizens of our great nation have come to deserve and expect? Painful alternatives emerge—increasing charges for services, cutting back on some services (e.g., indigent care and medical education and research) or both.

In addition to considering the effects of mandatory imposition of Social Security coverage on non-proifit health care institutions and health care cost containment policies, Congress must also consider the effect of such decision on the hospitals' employees. Older hospital employees may be too old to obtain the ten years of praticipation required to qualify for Social Security benefits. Thus, by mandating that such individuals be included in social Security, the Commission's proposal, if adopted by Congress, will force both the employee and the employer to contribute to a system under which the employee has no hope to obtain any return. At the same time, Congress is effectively foreclosing the employee's ability to participate in his present retirement plan and to accrue further meaningful benefits. In essence, Congress is asking this category of employees to bear a hardship that seems inequitable.

The Commission's proposal would also do away with so-called "windfall" benefits which may be realized by some employees who have only participated in Social Security for a relatively short period of their working lives. If the Commission's recommendation on this point becomes law, Congress will be mandating not only that these employees participate in Social Security and personally contribute a portion of their earnings to that system, but will also increase the cost of present hospital retirement plan arrangements that are offset in part by Social Security benefits. This result is extremely unfair in that it imposes yet another cost increase on hospitals who have done nothing more than play by the rules of current Social Security provisions affecting non-profit institutions be subject to mandatory Social Security coverage, but through a phase-in approach like that recommended for the Federal government employees. In addition, we recommend that the TEFRA Medicare amendments be changed to allow increased Social Security and related payroll costs resulting from mandated coverage to be fully reimbursed by Medicare.

Mr. Chairman, we are prepared to step forward to do our part. In the interest of fairness and sound health policy, however, and in view of this fundamental change in Federal Policy, we request that you provide us with the same adjustment period you are being asked to give the Federal government.

Mr. MATSUI. Do you have any particular type of phased-in amendment you have prepared, or do you just want the same general type of transition rule given to Federal new hires?

Mr. GAVRAS. I would prefer the same as for the Federal employees. We would like to be treated no better or no less.

Mr. MATSUI. Do you know what effect this would have on the package from a cost standpoint?

Mr. GAVRAS. Mr. Chairman, I do have a good idea. I understand that approximately 36 nonprofit hospital systems in the country have left the social security system. If they are permitted to phase in under the "new hire" rule, the system would raise all the revenue the Commission has proposed over the rest of the decade except for perhaps $150 million. By 1990 virtually all employees would be covered under social security; so, the revenue raised beyond that time would be roughly the same as under the Commission's recommendations.

Mr. MATSUI. You are saying that your rough estimate is only $125 million would be the loss?

Mr. GAVRAS. Approximately $150 million.

Mr. MATSUI. Your testimony said that from these organizations you might bring in revenue of somewhere around $425 million.

Mr. GAVRAS. If these hospitals were permanently exempted from coverage the loss would be approximately $425 million. With a phase in the loss would be significantly less.

Mr. MATSUI. I see.

Some of the other members have comments. I am not going to go fully into questioning you at this point, but I appreciate your testimony and appreciate your being with us. Thank you.

Mr. MATSUI. Now the Chair recognizes Mr. Hicks.

STATEMENT OF ALLEN M. HICKS, PRESIDENT, COMMUNITY HOSPITAL OF INDIANAPOLIS, INC., ACCOMPANIED BY DON E. VANDERGRIFT, VICE PRESIDENT, HUMAN RESOURCES

Mr. MATSUI. Mr. Hicks, I am trying to get your—are you from Indianapolis?

Mr. HICKS. I am, that is correct, sir.

Mr. MATSUI. The Community Hospital of Indianapolis?

Mr. HICKS. Correct.

Mr. MATSUI. I recognize you, Mr. Hicks.

Mr. Hicks. Thank you. I am president of the Community Hospital in Indianapolis, the second largest hospital in the State of Indiana, with 800 inpatient beds, over 3,400 employees. We furnish services to roughly 29,000 inpatients and 187,000 outpatients.

As provided in social security law back in December 1978, we gave notice that we were going to withdraw from the social security program. We worked with consultants during that period of time, and I would like to say from the beginning that Community Hospital established four objectives which had to be satisfied before final determination of withdrawal would be made, namely, the hospital had to be comfortable that the alternate benefit program satisfies its responsibilities as an employer in today's society.

Two, withdrawal had to lower hospital costs; three, the employees had to be comfortable with the decision to withdraw. The hospital had to be able to administer the alternative benefit program. The study revealed that as of January 1, 1981, Community Hospital withdrew from the social security program and established an ERISA-qualified retirement plan for its employees as an alternative to the social security program.

The alternative program provides for all of the significant economic security needs of employees and dependents which had been covered by social security. The alternative program is in addition to the other welfare benefit programs and pension plan of the hospital.

Even though the alternative program is financed entirely by Community Hospital, it still results in significant cost savings to the hospital. Actuarial projections indicate that Community Hospital's patients will save approximately $23 million over the first 20 years of the program. Such lowering of hospital costs will also produce lower costs to be reimbursed by the medicare program. As an additional benefit, employees have had an increase in their take-home pay in the aggregate of over 11 percent.

During the course of the 2-year study, employees were extensively involved in evaluating the desirability of the withdrawal and the details of the alternative benefit package itself. Extensive employee communications and educational programs were part of the decisionmaking process. In the end, in employee and spousal meetings and surveys the vast majority of the employees were in favor of withdrawal from social security and comfortable with the alternative program.

As further proof of positive employee response, not one employee in an exit interview has indicated that he or she was leaving because of nonparticipation in the social security program. In fact, we feel that the withdrawal from social security is attributable in part to the significant reduction in employee turnover in the past 2 years.

The alternative program today has already paid benefits to 89 employees and dependents. The assets of the alternative program are held in a trust fund with an independent national bank as trustee and a professional adviser managing investments. The trust fund currently consists of over $6 million in assets and will receive over $3 million in additional contributions in 1983. That program will have, I might say, $10 million in it by the end of 1983.

In short, the alternative program is a viable effective prefunded alternative to the social security program that protects the economic security of our employees while providing savings for both our employees and our patients. It was established as a long-term commitment of Community Hospital based on long-range actuarial assumptions. It was established in response to public demand for cost containment in the hospital industry and congressional encouragement of private pensions in the ERISA legislation. Finally, it was established in reliance on the provision of the social security law which authorized such withdrawal.

I just might say, in summary, that our employees like the program, No. 1. No. 2, it is a very small part of the overall system, and therefore we are asking to be considered to be grandfathered in. It will be a terrific hardship on our employees if we are forced back in.

It will mean 11 percent less take-home pay in their envelopes and $4 million a year that will be withdrawn from our local community, which, if you were to multiply in purchasing power, turns out to be $9 million. So it is really a very serious matter, I think, for the few hospitals in this country that are outside of the system.

I would just say because of the things I have cited, less take-home pay, the cost-containment issues and the dollar issues of our community, that every consideration be given to allowing us to be grandfathered, as stated, with the Federal employees.

Thank you.

Mr. ANTHONY. Thank you, Mr. Hicks.

[The prepared statement follows:]

STATEMENT OF ALLEN M. HICKS

Community Hospital is the second largest hospital in the State of Indiana with over 800 inpatient beds. Over 3,400 employees are employed by Community Hospital in furnishing to over 28,700 inpatients and 187,100 outpatient and emergency room visits annually.

As provided by law in Section 3121(k)(1)(d) of the Social Security law, Community Hospital submitted its notice of termination of participation in the social security program in December of 1978. This notice marked a two year period during which Community Hospital conducted an extensive study and evaluation of the alternatives to participating in the social security program. To assist in this process, Community Hospital engaged an outside consulting firm and the national actuarial firm of Hewitt & Associates. Arizona State University utilized a computer model which it had developed to analyze the relationship between the contributions to Social Security for Community Hospital employees and the benefits to be received.

At the very beginning of the study, Community Hospital established four objectives which had to be satisfied before a final determination to withdraw would be made. Namely,

1. Withdrawal had to lower hospital costs,
2. The hospital had to be comfortable that the alternative benefit program satisfied its responsibilities as an employer in today's society,
3. The employees had to be comfortable with the decision to withdraw,
4. The hospital had to be able to administer the alternative benefit program.

The study revealed that all of these objectives could be satisfied.

As a result, as of January 1, 1981, Community Hospital withdrew from the Social Security program and established an ERISA qualified retirement plan for its employees as an alternative to the Social Security program. The alternative program provides for all of the significant economic security needs of employees and dependents which had been covered by Social Security. The alternative program is in addition to the other welfare benefit programs and pension plan of the hospital.

Even though the alternative program is financed entirely by Community Hospital, it still results in significant costs savings to the hospital. Actuarial projections indicate that Community Hospital's patients will save approximately $23 million over the first 20 years of the program. Such lowering of hospital costs will also produce lower costs to be reimbursed by the Medicare program. As an additional benefit, employees have had an increase in their take home pay in the aggregate of over 11 percent.

During the course of the two year study, employees were extensively involved in evaluating the desirability of the withdrawal and the details of the alternative benefit package itself. Extensive employee communications and educational programs were part of the decision making process. In the end, in employee and spousal meetings and surveys the vast majority of the employees were in favor of withdrawal from Social Security and comfortable with the alternative program. And as further proof of positive employee response, not one employee in an exit interview has indicated that he or she was leaving because of nonparticipation in the Social Security program. In fact, we feel that the withdrawal from Social Security is attributable in part to the significant reduction in employee turnover in the past 2 years.

The alternative program has now been in existence two years and has already paid benefits to 89 employees and dependents. The assets of the alternative program are held in a trust fund with an independent national bank as trustee and a professional advisor managing investments. The trust fund currently consists of over $6.0 million in assets and will receive over $3.0 million in additional contributions in 1983. The program is actuarially evaluated each year to ensure that contributions satisfy ERISA and the Internal Revenue Code.

In short, the alternative program is a viable effective pre-funded alternative to the Social Security program that protects the economic security of our employees while providing savings for both our employees and our patients. It was established as a long term commitment of Community Hospital based on long range actuarial assumptions. It was established in response to public demand for cost containment in the hospital industry and Congressional encouragement of private pensions in the ERISA legislation. Finally, it was established in reliance on the provision of the Social Security law which authorized such withdrawal.

If Congress were to now deny this existing benefit to our employees, it would have adverse economic effects on our patients, our employees and, our community and the city of Indianapolis. Our patients would be faced with higher costs, our Employees would be faced with higher taxes and lower take-home pay, and our community would be faced with higher health care costs. Approximately $4 million of employee income which now goes into the local economy would be shifted to the federal Social Security trust fund. Finally, the Medicare program itself would be faced with higher reimbursable hospital costs.

In short, the answer of bringing nonprofit hospitals back into the Social Security program is not as simple and painless as it may appear at first glance. Although we represent only a very small amount dollar-wise in the national picture, a shift in the law would have wide ranging economic implications for our employees and the citizens of Indianapolis and Indiana.

We recognize the problems faced by the Social Security system and generally support the recommendations of the National Commission on Social Security. However, we do not support the proposal to bring all nonprofit institutions into the Social Security program. We recommend that any nonprofit institution which is not covered by the Social Security system prior to the enactment of any reform legislation be allowed to remain out of Social Security.

We have a viable functioning alternative program. It works. Why change it?

Mr. ANTHONY. Mr. Howard Rohan will be our next witness.

STATEMENT OF HOWARD ROHAN, VICE PRESIDENT FOR HUMAN RESOURCES, SAMARITAN HEALTH SERVICE, PHOENIX, ARIZ.

Mr. ROHAN. Thank you, Mr. Chairman. I am Howard Rohan, vice president, Human Resources, for Samaritan Health Service, Phoenix, Ariz., phone (602) 239-4159. Samaritan Health Service is a nonprofit, multihospital system headquartered in Phoenix, Ariz., with 7,000 employees, most of whom work in the State of Arizona.

Our detailed statement has been submitted for the record. Rather than read it, I would like to talk briefly and informally about what the opportunity to participate in social security means to us in nonprofit and other religious institutions in terms of three things which can be found in my formal statement, the final hardship, higher medical care costs and employee morale.

In January 1980, as the statement sets forth, Samaritan exercised its option to establish an alternate benefit program for all of our employees, and we withdrew from social security. This was a culmination of an intensive 2-year analysis of financial and actuarial studies and, most significantly, employee opinion.

We are now entering our fourth year of operation in the program. It continues to provide equal or better coverage and retirement disability, survivor income, and old-age benefits. It translates directly into lower charges for all our patients, and employees enjoy the support of this program. We have measured this through several attitude and opinion surveys.

Incidentally, we have kept pace with the large increases in social security benefits occurring in 1980, 1981, and 1982. Thus we have provided increased employee benefits in our program while still continuing to pass over $2 million a year in savings on to our patients.

Now, under these circumstances you will understand why we are here today to plead for a solution to the problems that this proposal poses for a nonprofit organization who in good faith relied on the current law option to withdraw from social security.

Our alternate plan translates directly into lower charges for our services and also forms a very strong basis for our strategic planning in cost containment along with multiple purchases for the hospitals and several other strategic plans that we have. Compulsory participation in social security would mean higher charges to the public, Federal, and State governments via medicare and medicaid. It would also create new costs for employees who do not now contribute to the alternate plan. It is entirely funded by Samaritan.

Compulsory participation is in effect a retreat also from the historic tax-exempt status of nonprofit organizations, and surely this runs counter to congressional and White House calls for increased reliance on voluntary private sector and decreased reliance on Federal programs.

During the 2-year period in which we studied the withdrawal from social security, the employees helped develop this plan, entered into it fully educated, open-eyed and confident and they have not been disappointed. Social security will cost them more for the same or lesser benefits and reduce their spendable income.

May I suggest that this may be one of those happy cases where both equity for the employees and good business with respect to Samaritan's judgment leads us to the same conclusion.

Now, the nonprofit sector, those of us here today, understand Congress has been asked to balance arguments such as I have just raised here in this presentation against the competing claims made for the social security system, and we know this is an awesome responsibility. But we respectfully suggest there are some limited strictly targeted steps you could take which would substantially achieve the ultimate objective of social security or the nonprofit sector. They are as follows:

One, permit organizations which have withdrawn from social security in accordance with the current law to continue their alternate programs as long as they meet ERISA and IRS standards under which they were established.

Two, entry under social security in the future should be an irrevocable decision.

Finally, allow time for nonprofit organizations to operate out by a deadline date, and failure to do so would result in an irrevocable decision. We think these minor adjustments to the proposal would still result in increased trust fund revenues without frustrating either the tax status of nonprofit organizations or attempts to reduce medical care costs. Samaritan Health Service and the nonprofit sector plead with you to grant us these considerations.

[The prepared statement follows:]

STATEMENT OF HOWARD ROHAN, VICE PRESIDENT FOR HUMAN RESOURCES, SAMARITAN HEALTH SERVICE, PHOENIX, ARIZ.

I, Howard Rohan, am the vice president, human resources for Samaritan Health Service, Phoenix, Arizona, phone (602) 239-4159. Samaritan Health Service is a nonprofit, multi-hospital system headquartered in Phoenix, Arizona with 7,000 employees, most of whom work in the State of Arizona.

In early 1978 Samaritan Health Service began a comprehensive two year study of the consideration involved in our continued coverage under Social Security versus exercising our right to terminate participation as outlined in Section 3121(k)(1)(D) of the Internal Revenue Code. Our study involved a detailed analysis of the cost and benefits of Social Security versus the cost and benefits of a comprehensive Alternate Benefit Program that we designed to provide in lieu of Social Security coverage. During the study we received substantial outside assistance from Arizona State University professors and independent actuarial consulting firms. Our employees were closely involved in the evaluation process. The study culminated with extensive employee education on the issues and an employee opinion survey regarding continued Social Security participation versus our proposed Alternate Benefit Program. The major results of our study were the following:

We were able to construct a comprehensive Alternate Benefit Program that provided equal or better benefits to our employees in all the significant areas covered by Social Security (i.e., retirement, disability, survivors' income and old age medical benefits) at no cost to the employee. While some of the obscure Social Security benefits (e.g., for divorced spouses) were not part of our program for practical reasons we were able to cover adequately the basic economic security needs of our employees and their dependents.

The long term total cost of the Alternate Benefit Program was projected to be no more than the employer portion of the Social Security taxes required for continued Social Security participation. The cost savings directly translates into lower charges for all health care services provided by our facilities.

A substantial majority of our employees were (and remain) comfortable with the decision to withdraw from Social Security and become covered by the Alternate Benefit Program.

On the basis of these results, Samaritan withdrew from Social Security and adopted its Alternate Benefit Program effective January 1, 1980. The benefits of this program have kept pace with the increases in Social Security benefits, and the cost experience of the program has borne out our earlier projections—even with the benefit increases we made to reflect the large Social Security benefit increases that occurred during 1980, 1981 and 1982. Three years of experience in funding our Alternate Plan versus the required participating level of Social Security has resulted in significant accumulated dollar savings to Samaritan Health Service.

We obviously are opposed to any legislation that would require us (and other not-for-profit organizations that withdrew from Social Security) to resume participation in Social Security. From our own point of view, forced participation in Social Security would require us to terminate our Alternate Benefit Program. This would cause us and our employees significant hardship. Our employees would be required to pay Social Security tax and receive lesser benefits.

Taking a broader perspective, there are significant reasons why forced Social Security participation by not-for-profit organizations runs counter to the national interest:

Hospitals find themselves under increasing pressure from the federal government and from the private sector to hold down the cost of quality health care. A large part of our decision to withdraw from Social Security was based on our efforts to contain the cost of medical services. Forcing hospitals into Social Security can only increase the cost of medical services to the general public and to the federal government (through the Medicare system). Any Social Security revenue gained by forcing hospitals to participate in Social Security will be offset by increased medical payments to providers and increased corporate tax deductions for private medical care benefit plans.

Social Security is embodied in two separate pieces of legislation. The Social Security Act sets forth the basis under which benefits are paid. The Federal Insurance Contributions Act (F.I.C.A.) is a tax act that imposes a federal payroll tax on workers and their employers. Making Social Security participation mandatory for organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code represents an unprecedented attack on the tax exempt status of not-for-profit organizations. The precedent for further federal taxation of churches, schools and hospitals would be established. This runs counter to President Reagan's agenda for a greater social role by the voluntary private sector and a decreased role for federally funding social programs.

We recognize the current problems of the Social Security system and generally support the efforts to put the system on a sound financial footing. We do recommend that any legislation dealing with Social Security participation by not-for-profit organizations include the following provisions:

Any organization that withdrew from Social Security prior to the release of the Commission's report be allowed to remain outside Social Security.

Any not-for-profit organization that is not in Social Security be allowed to enter the system in the future through an irrevocable decision to do so.

Any not-for-profit organization currently in Social Security be given a reasonable period of time to determine if they wish to exercise their withdrawal rights under Section 3121(k)(1)(D) of the Internal Revenue Code. Failure to exercise that right by the deadline date would result in irrevocable future participation.

This approach would ultimately stabilize long term Social Security participation by not-for-profit organizations without attacking their tax exempt status or frustrating other programs designed to control the rising cost of medical services.

Mr. **Anthony**. Thank you.

Mr. Crews?

STATEMENT OF JAMES C. CREWS, PRESIDENT, CHARLESTON AREA MEDICAL CENTER, CHARLESTON, W. VA., ON BEHALF OF VOLUNTARY HOSPITALS OF AMERICA

Mr. **Crews**. I am Jim Crews, president and chief executive officer of the Charleston Medical Center in Charleston W. Va. Charleston Area Medical Center is a 950-bed facility, also part of the Voluntary Hospitals of America, and it exercised its right to withdraw from the social security program in July of last year.

Prior to submitting the letter to withdraw from social security, our Board of Trustees laid down two very basic ground rules. First of all, that the contribution made by CAMC as the employer would not be reduced either at the time we withdraw or either at the time we withdrew or any time in the future either as the percentage of payroll increased, or as the base increased.

No. 2, the second ground rule laid down by the Board at the outset was that all of our employees must be fully educated about social security and the alternative program. Must be fully informed of the two and must be supportive of whichever decision we elected to make, whether it was to stay within the social security program or whether it was to exercise our right and opt out.

I think it is very key that this committee under the process under which the Charleston Area Medical Center and other hospitals went through to make the evaluation. First of all, we recognize two very givens in any hospital organization. No. 1 is the overwhelming majority of our employees are female. No. 2 is that our most valuable asset; certainly one of our most valuable assets is that group of employees called registered nurses. Whether we established our steering committee to look at social security and the alternative program, the overwhelming number of employees on that task force were women, and a good number of those people were registered nurses.

One of the things we accomplished, if nothing else, was to inform our employees of what social security benefits were available to them at the time they reached the condition that they were eligible to receive them. I think it is an understatement to say that most employees are totaly unaware of what social security benefits are. If nothing else this was an excellent example of how we could communicate to our employees the benefits of social security.

We did this by inviting people from the Social Security Department to come and present the social security program to this 200-member task force. Over a period of some 18 months we had 153 meetings on all shifts, 7 days a week with each and every one of our employees. Our basic program consists of those benefits provided by the employer. We have a supplemental program which is custom designed to the needs of each individual employee.

If an employee does not need, for example, the survivor's benefit feature of the option, they can elect to go with another option. Ninety-two percent of our employees, of our 3,800 employees, have elected to go with the option program as opposed to taking their 6.7 percent of payroll as additional compensation.

The benefits we were able to put together are substantially better than that offered by social security for the same amount of contribution. No. 2 is it offers a selectivity on the part of an employee who may favor retirement feature, for example, as compared to others. No. 3, it has proved to be a very strong recruiting tool for attracting and recruiting professional nurses and others, for retaining nurses and other employees, and also for the overall retention.

It would be very detrimental to these 3,800 employees if they were mandated back under the social security program. They would be forced to accept inferior benefits. We would be confronted with a morale problem and it would be administratively very difficult to administer both programs in dual relationship.

We think it is very important to not-for-profit hospitals, there aren't too many. The contribution they would make to the social security program is very small by comparison. Yet the value to our 3,800 employees is very, very significant. Charleston Medical Center is aware of the many problems facing the social security program, and we fully appreciate the onerous and perhaps thankless task that this subcommittee has been assigned.

We further believe that not-for-profit hospitals should continue to have the option of withdrawing from social security if the hospitals are willing to commit the necessary time and resources to develop an alternative program offering superior benefits to their employees at the same or lesser cost. At the minimum and in the spirit of compromise the subcommittee should recommend those hospitals already out of the social security program should be allowed to stay out and that new long wage be adopted which would prohibit new withdrawals after June 1, 1983.

On behalf of the Charleston Area Medical Center's Board of Trustees and our 3,800 employees, I would like to thank you for the opportunity to present this position statement to you.

[The prepared statement follows:]

STATEMENT OF JAMES C. CREWS, PRESIDENT, CHARLESTON AREA MEDICAL CENTER

I am James C. Crews, the president and chief executive officer of the Charleston Area Medical Center (CAMC), Charleston, West Virginia. In 1979, our 940 bed not-for-profit hospital undertook a thorough evaluation of the social security benefits our 3,800 employees and our institution were buying. The balance of this presentation will demonstrate the evaluation process all 3,800 employees went through, the overwhelming and enthusiastic support of the alternative plan, and the severe penalty each of these 3,800 employees and their families will suffer if they are involuntarily mandated back into the social security program.

In 1979 a study group was formed consisting of 200 supervisory and nonsupervisory employees, insurance specialists, actuarial consultants, benefit plan consultants, legal counsel, administrative personnel, and hospital trustees. The very first order of business was to hear representatives from the Charleston office of the Social Security Administration present a thorough understanding of the benefits offered by social security. Over the next several months, this study group developed a comprehensive alternative plan which was then ready to discuss with the remaining 3,600 employees at the medical center.

During the 22 month period from September 1979 to July 1981, 153 employee meetings were held covering all employees on all shifts at the medical center. Oftentimes employees brought their spouses to these meetings and would occasionally bring their personal insurance representatives to ask questions on behalf of the employees.

From the beginning of the study process, the board of trustees had formally specified that the medical center's contribution to an alternative program would always parallel the contribution required by other employers under the social security program. In other words as the base and or the percentage increased, the medical center would enhance the benefits of the alternative plan commensurately.

Under the CAMC alternative program, each employee received the following benefits provided from the empolyer's 6.7 percent of payroll and at no cost to the employee:

Life Insurance. One times annual salary.

Accidential Death & Dismemberment.—One times annual salary.

Basic Survivors.—50 percent of annual salary payable to eligible survivors (utilizing the same criteria as social security).

Income Protection.—50 percent of annual salary paid monthly.

Retirement.—Increased current retirement formula by one-half of 1 percent thus offering substantially greater payments to retirees.

Medicare.—CAMC pays total cost of medicare part A and employee pays part B.

Under the alternative plan, each employee has two discretionary options on the use of his/her 6.7 percent of payroll traditionally withheld from his/her paycheck:

1. Accept the 6.7 percent of payroll as additional net take-home dollars, or
2. Use the 6.7 percent of payroll to selectively purchase supplemental benefits provided as part of the alternative program. The following supplemental benefit options are available to be selected by the employees based on his/her individual and family needs:

Life Insurance.—Option for additional one times annual salary.

Accidental Death & Dismemberment.—Option for additional one times annual salary.

Supplemental Survivors.—Additional 25 percent of salary payable to any beneficiary.

Income Protection.—Additional 20 percent of annual salary paid monthly.

Supplemental Retirement.—401 K plan in which employees can contribute up to 6.7 percent of salary and matched up to 2 percent by CAMC (established to augment retirement income).

When the empoyees were surveyed and reactions solicited, the overwhelming majority preferred to withdraw from social security. In fact, 92 percent of our 3,800 employees have elected to spend their 6.7 percent on the supplemental benefit program.

In August 1981, the CAMC board of trustee unanimously voted to withdraw from the social security program. During the 6-month period, January 1982 to July 1, 1982, 1- to 2-hour employee benefit counseling sessions were held with each individual empolyee so that each could select the supplemental benefit option, being fully informed. Employee reactions continue to be positive. In fact, the alternative program is one of this medical center's most effective recruiting tools.

Thousands of staff hours, involvement of employee benefit consultants and efficient design and utilization of the self-insured concept have enabled this institution to design and implement a cost effective replacement for social security. To require the Charleston Area Medical Center and other similarly innovative not-for-profit hospitals to go back under the social security system will penalize our 3,800 employees by requiring them to accept substantially inferior benefits for their same contribution. Furthermore, undoing our comprehensive alternative program and enrolling 3,800 people back into the social security program will be very cumbersome and expensive to accomplish.

The Charleston Area Medical Center is aware of the serious problems facing the social security program and we fully appreciate the onerous and perhaps thankless task this subcommittee has undertaken. We further believe that not-for-proft hospitals should continue to have the option of withdrawing from social security if the hospitals are willing to commit the necessary time and resources to develop an alternative program offering superior benefits to their employees at the same or lesser cost.

At the very minimum and in the spirit of compromise, this committee should recommend that those hospitals already out of the social security program should be allowed to stay out and that new language be adopted which would prohibit new withdrawals after June 1, 1983.

On behalf of the Charleston Area Medical Center board of trustees and our 3,800 employees, I thank you for the opportunity to present this position statement.

Mr. ANTHONY. Thank you, Mr. Crews.

Mr. MATSUI. Mr. Cipoletti?

STATEMENT OF RICHARD C. CIPOLETTI, ASSISTANT ADMINISTRATOR, LEHIGH VALLEY HOSPITAL CENTER

Mr. CIPOLETTI. Mr. Chairman and members of the committee, my name is Richard Cipoletti. I am assistant administrator for human resources of the Lehigh Valley Hospital Center, formerly known as the Allentown and Sacred Heart Hospital Center. I thank the committee for the chance to have a minute in this very heavy schedule of hearings.

I am here to comment, Mr. Chairman, on the Commission's proposal to force nonprofit organizations, such as our hospital, which have opted out of social security, to go back into the social security system. From the point of view of our hospital and others similarly situated, that recommendation is ill-founded for three principal reasons:

No. 1, it would deny the greater employee benefits achieved through an alternative security program,

No. 2, it would deny our hospital the substantial cost savings achieved through an alternative program, and

No. 3, it would be unfair to institutions such as ours which have expended vast amounts of time and money in reliance upon the ability to opt out of social security.

Regarding greater employee benefits, I have heard it suggested that hospitals such as ours have been sold a bill of goods by slick insurance salesmen. I can assure you, Mr. Chairman and members of the committee, that no insurance company could have been put to task more rigorously than our alternative program. At the time we were considering opting out of social security, we set a goal that nobody would be hurt by the change. All 1,650 employees had to get benefits substantially equal to those offered by social security, with the majority getting a much better package. We had computerized comparisons run for each employee, comparing the alternative program's benefits to those of social security. The hospital and its employees took nothing for granted. I can recall occasions when employees went down the street to the local Social Security Administration office to verify figures provided by the alternative program. Mr. Chairman, I can state unequivocally that our hospital did achieve greater benefits for our employees by opting out of social security.

With regard to cost savings, I have to express puzzlement that hospitals such as ours have at times been criticized for saving money by opting out. The single comment that our industry hears most often from the Congress and the public is that health care costs are out of control—that they must be cut. Well, Mr. Chairman, the Lehigh Valley Hospital Center saves $300,000 per year by being enrolled in the alternative security program while providing superior benefits. Cost savings is not the only or even the primary reason we opted out, but I am sure all members of the committee would agree that it should be a priority of every American health care institution.

Finally, Mr. Chairman, I think there is a very strong fairness argument against forcing hospitals such as ours back into the social security system. As you know, opting out is a very long process. It is also a very expensive process. Before we even broached the issue with our employees, we put a sample group of 60 middle managers through the entire program, including education sessions, computer simulations, and visits to hospitals which had already opted out. We then went through much the same process with all our employees. We did all this, Mr. Chairman, in reliance upon our legal ability to opt out of social security. I think to force us back into the system, which itself would cost great amounts of time and money to integrate the alternative program back into social security, would violate fundamental principles of fairness.

This last point of fairness suggests one final thought on the issue. I think the nonprofit organizations which have already opted out or have applied to opt out are in a substantially different position than those which might do so in the future. If, Mr. Chairman, this committee decides that the ability of nonprofit organizations to opt out of social security should be terminated, I would ask that some provision be made to allow organizations like ours to continue in the alternative programs which we have chosen after much time, thought, and expense.

Thank you, Mr. Chairman. I would be happy to respond to any questions.

Mr. ANTHONY. I would like to thank the panel. I think you have brought testimony that shows a real possibility of an inequitable situation here. Just speaking as one member of the subcommittee and the full committee, you have made some points with me anyway. I have a couple of questions I would like to ask, though.

Mr. Gavras, you state in your testimony that some 36 nonprofit health organizations have withdrawn from social security. Do you have any studies to show how many nonprofit health care organizations there are in existence?

Mr. GAVRAS. How many—I am sorry, the question again?

Mr. ANTHONY. That 36 is what percent of the whole?

Mr. GAVRAS. Of the total nonprofit hospitals in the Nation? I would have to say—there are over 5,000 nonprofit hospitals. I would say that the number that have left the system is less than 1 percent.

Mr. ANTHONY. Of the nonprofit? Of the 36 nonprofit that opted out, what percent would that be of the whole?

Mr. Owen represents the association. Maybe he has some of those numbers floating around.

Mr. OWENS. A little less than 1 percent.

Mr. ANTHONY. Well, the question that I asked and the answer that comes forward obviously leads to the next question. If only 1 percent have opted out and they have done very detailed cost analyses and they say that they can provide lower health care cost by opting out of social security, why have the other 99 percent chosen to maintain a system that will continue high health care costs in their communities?

Mr. GAVRAS. These are the hospitals that are out of the social security system. There are many more that have submitted letters of intent to drop out of the system. That figure is significantly larger. There are no hospitals of which I am aware in the Chicago area that have left the system at this time, but 70 have submitted letters of intent to drop out of the system.

Mr. ANTHONY. Do any of the witnesses who have testified for their particular institution or groups of institutions have any studies, facts, figures you could submit for the record that would prove your allegation that by opting out that you in truth and fact do provide lower health care costs in your communities?

Mr. HICKS. We could provide that information.

Mr. ANTHONY. I think that would be very important because that is the basis of just about everyone's testimony. The reason you opted out was to try to provide the benefits to your employees, hold the costs down to your institutions and at the same time, provide lower health care costs.

Mr. HICKS. In our actuarial, about 1 percent of our payroll is saved by being out. Our payroll this year is $60 million in our institution. So it is a $600,000 savings this year. That improves a little bit as we go along. The other side of that is the 11 percent less that our employees would receive in their paycheck if we went back in. If we had to compensate that in some form that would increase patient cost by about $20 a day.

Mr. ROHAN. I think I can give a dramatic figure. We are probably the largest single system here today, with 7,000 employees and about four major metropolitan hospitals and several regional hospitals we manage. We are running about $2.5 million a year less in payroll dollar costs to fund our private alternate plan than we would if we were in social security. That has been a steady figure since 1980 when we withdrew.

We probably saved—this isn't the whole figure, but we probably can see $7.5 to $8 million in cost savings so far. Just because we are funding at about a 5-percent rate for a pension plan versus the 6- and then 6.7-percent increase. That doesn't talk to the impact of the employee on the net pay he has had and competitive position of the community which has been aided by this.

Mr. ANTHONY. In any of your organizations has there been any movement by any of your employees to question the decision? Have there been any petitions filed, movements made to move back toward social security?

Mr. ROHAN. Let me handle that first; then we can switch around. As the other systems did going in, we ran during our 2-year study several employee panels. We had employee teams that helped run the concept. Since then we have run attitude surveys and face-to-face communication sessions. One, there is no interest in going back into social security. Two, our turnover does not reflect that. And, three, we just formed a for-profit company and moved 555 employees out of the not-for-profit into the for-profit as the nucleus. And we had a real severe morale problem moving those people into social security out of our program. It was not a positive event.

Mr. ANTHONY. If you could try to be more responsive to the direct question, that is, has there been any movement by the employees——

Mr. ROHAN. The answer is no.

Mr. ANTHONY. I understand all the efforts you made. That is really all I am asking.

Mr. HICKS. No. It has been absolutely the other way. Very positive.

Mr. ANTHONY. Well, that is the reason we are here, is to try to shore up the confidence in the social security system, hopefully so that if anybody has a problem in the future, people will say, hey, it is solvent, it is a good system, and it is going to be here for the long range, and we won't have that problem.

Mr. HICKS. I want to mention here the portability problem that keeps coming up is not a problem. It has not been a problem in our institution. I know the critics always throw portability——

Mr. ANTHONY. What are your vesting requirements? How many years?

Mr. HICKS. We are fully vested in 5 years. That was an initial problem with the employees, but we satisfied that.

Mr. ANTHONY. What percent of your employees leave without vesting?

Mr. HICKS. We have been out 2 years now. You will find the biggest turnover in hospitals is the first 2 years. We run in our case about a 20-percent turnover rate overall. Most of that turnover is in the first 2 years. Those people aren't really affected, nor are they really your career people. That just has not been a problem.

And I know people make a big issue about it. When we went in we were concerned about that.

Mr. ANTHONY. But you have a 5-year vest.

Mr. HICKS. Yes, sir.

Mr. ANTHONY. So you do have a large percent that leave your employment without vesting for any benefits?

Mr. HICKS. That is not right, he says.

Mr. ANTHONY. If you have got 20 percent to turnover about every 5 years, I mean 20 percent out of 100, that is fairly significant I would think. I am just repeating what you said. If I am repeating something you didn't—I will give you an opportunity to put that statement in the record.

Mr. HICKS. OK.

Mr. ANTHONY. I would like to know the turnover. You estimate it to be——

Mr. VANDERGRIFT. So far we have not been out of the program 5 years. But we have——

Mr. ANTHONY. But you know your turnover rate.

Mr. VANDERGRIFT. This past year it is a little bit over 13 percent. That is kind of unusual. We think part of that is attributable to our being out of social security, the balance is attributable to the economic situation. But to try to directly address your question, we don't have that kind of experience at this time because of only being out for 2 years.

Mr. ANTHONY. Thank you.

Mr. Thomas, do you have questions?

Mr. THOMAS. Thank you, Mr. Chairman.

I want to go over those numbers again to be sure we fully understand the impact. I guess, Mr. Owen, you are the one we should rely on as representing the hospital association. Is it my understanding that, in response to a question as to how many there are who could avail themselves of the opting out provision, that less than 1 percent of the institutions who could avail themselves of that opportunity have done so, is that correct?

Mr. OWEN. That is correct. There are about 5,000 nonprofit hospitals in the country. Now, they are talking about systems. Don't confuse hospital with system because there may be 15, 16 hospitals in a system. But overall, individually there is about 5,000 nonprofit hospitals.

Mr. THOMAS. Give me systems then. What percentage of the systems have opted out?

Mr. OWEN. That I am not sure of. I couldn't answer that. Maybe somebody here——

Mr. THOMAS. Can you give me what percentage of employees who could be under social security or have their institutions or their systems opt out? You understand my problem?

Mr. OWEN. Yes.

Mr. THOMAS. I do not know how significant what you are asking for is going to be in terms of impact. If you are less than 1 percent, that might be achievable. But if you are 60 percent, then one of the reasons they are trying to put you in is for the dollars.

Mr. HICKS. It would be less than 1 percent if you call it a system or individual hospital. The largest system is good samaritan——

Mr. THOMAS. Or employees? By employees?

Mr. HICKS. By employees.

Mr. ROHAN. I think there are some statistics which are available—I don't have them with me—which shows that this class of employee we are talking about right now, your question, if they are to be put back in, the revenue source that they would provide would be about one-quarter of 1 percent of what you are looking for in this whole area.

Mr. THOMAS. Your argument is a compelling one. If you aren't making your figures up out of whole cloth, the argument is a compelling one in two directions: One, the employees themselves benefit, and the system benefits; that is, more health care. So I think if you would, and whoever wants to assume that responsibility, provide this subcommittee for the record the information in terms of impact if those allowed to opt out stayed out in some kind of modification of the program as presented to us, because the number of people involved will certainly be a key factor in whether or not that is politically viable.

Mr. OWEN. I have made some notes of the number of hospitals, the number opted out, the employees involved. We will get the dollar figures and put them together for you.

[The information follows:]

The American Hospital Association does not maintain data regarding the filing of notices by nonprofit hospitals to withdraw from the Social Security system.

However, according to data compiled by the Social Security Administration in October 1982, there were 36 nonprofit hospitals who had filed notices to terminate Social Security coverage in 1982. These 36 hospitals employ 27,528 individuals with a total payroll of $343,919.

In 1983, there are 346 hospitals who are pending termination employing 338,849 people representing a payroll of $3,477,537 according to the Social Security Administration.

In 1984, there are 71 hospitals who are pending termination employing 51,307 individuals representing a payroll of $593,715 according to the Social Security Administration.

Mr. ANTHONY. Mr. Jacobs?

Mr. JACOBS. You said portability was not a problem.

Mr. HICKS. Yes.

Mr. JACOBS. I didn't quite understand what you mean by that.

Mr. HICKS. The portability question first came up when we were meeting with all the employees. First this was over, it took a year to go through all these meetings and so on. We did a very thorough job of that. We had about 20 problems. One of those was portability. First, we cut vesting from 10 to 5 years. When we got into the picture there weren't that many people involved. The first 2 years, turnover, you're getting down to very few employees actually involved.

Second, our hospital and most hospitals that have professional careers, such as nurses and so on, our program is better, the one in place is better than the social security disability program. The last thing we said to our employees, you are going to be receiving 11 percent more take home pay increase. The take home pay increase is 11 percent.

We did try to advise them that if they felt uncomfortable with the portability feature we would try to counsel them to pick up a small disability policy to give them additional coverage if they thought they needed it. I meet with our employees every 6 months in groups of 40. I am in that process right now, and I have been doing it for 28 years.

I particularly bring that point up of the so-called portability problems, any problems they are having with the alternate program, and it has just not been a problem.

Mr. JACOBS. I guess the question would be, then, for the people who leave within the first 2 years, that would be portability.

Mr. HICKS. That is right. If they leave us in less than 5 years, they have portability anyway because they are covered. If they stay with us past 5 years, they could have a problem in the open market.

Mr. JACOBS. I say, if they leave in less than 5 years, the 2 or 3 years they have worked—do they get a lump sum settlement?

Mr. HICKS. No. They get the—by getting 6.5 percent in their paycheck, they don't get a lump sum settlement.

Mr. JACOBS. Technically, you would have to say if I work for you for 2 years and then go on down and work for the Ford plant, those 2 years I would have nothing built up anywhere as far as retirement is concerned. Would that be fair to say?

Mr. HICKS. Is that fair to say, Don?

Mr. VANDERGRIFT. That is correct.

Mr. HICKS. That is correct. But you also, though, would still be covered by social security if you were with us less than 5 years. See, there is a 5-year delay in the social security plan. So if you work somewhere, come to work for us 2 years and then go work somewhere else, you are bridged. So there would be no problem as far as that employee is concerned.

Mr. JACOBS. Thank you very much.

Mr. ANTHONY. Mr. Matsui?

Mr. MATSUI. Gentlemen, I would like to make sure I understand your group's position. Obviously you would like the status quo in that you would not necessarily like to be in the system. But assuming you eventually had to come into the system, then your next option would be on a phase-in basis; that is, with new employees? Is that the understanding I have? Is that correct?

Mr. CIPOLETTI. My first preference would be that you grandfather on an institutional basis.

Mr. MATSUI. All nonprofit groups, or mainly health based groups?

Mr. CIPOLETTI. Obviously, my particular concern is hospitals.

Mr. MATSUI. I understand, but our problem is how do we distinguish between your group and another nonprofit group unless we say, OK, all nonprofit groups are out. I realize that you provide medical services which is a benefit. But so do a lot of other nonprofit groups. Once we open the door for one, it creates a problem.

Mr. CIPOLETTI. Perhaps you could establish, as I understand you have done with the employees of State government, a cutoff date, also suggested by Mr. Crews, by which time those who have intentions of getting out or who are already out must have gotten out or else come into the system, and which obviously cuts off then the withdrawal of future groups of employees.

Mr. ROHAN. We would second that approach.

Mr. HICKS. We would third that approach.

Mr. MATSUI. OK. My concern I guess is, you know, Federal employees want to stay out of the group. I don't know how significant your group is in terms—for instance, if we eliminated you from the package, I don't know if that would unravel it as it would with Federal employees. I haven't been able to determine that yet. My understanding is it wouldn't unravel the package, but I am trying to think aloud on the subject.

Mr. ROHAN. I think there is one compelling argument which is different from the Federal employees. That is that there is a significant cost containment effort that has resulted from the private sector getting creative and finding out that it can fund through a private pension plan, or design a model, an equal or better plan than social security, at first, not just the cost to the employer of social security, but in many cases less than the cost, which is our case, running abut 4.8 percent versus 6.7 percent, soon to be 7 percent.

Second, the employees themselves have more take-home pay without increasing that cost to the hospital because they are paying it anyhow. They are just putting it in net pay. So that is a very compelling argument and significant difference. It will cost us millions to go back in. Millions, not just a few hundred thousand, but millions.

The other thing that is important here is that in the 1982 medicare regulations it becomes the base year for medicare reimbursement. One of the things that bothers us is that the cost of social security for our corporation is not built into that 1982 base. That is another cost. So I think there are some very real reasons to look at this with a microscope.

Mr. MATSUI. Thank you.

Mr. ANTHONY. Thank you, Mr. Matsui. Thanks to the panel for your excellent testimony. I am sure it will help the subcommittee in its deliberations.

Mr. CIPOLETTI. Thank you for the opportunity.

Mr. HICKS. Thank you very much.

Mr. ROHAN. Thank you.

Mr. ANTHONY. Our next panel is composed of several witnesses:

Dr. Terry L. Lantry, president of OPPOSE and chairman of PERA of Colorado. OPPOSE is another of those fancy acronyms, Organization for the Preservation of the Public Employees' Retirement Industry and Opposition to Social Security Expansion to Such Industry. And Public Employees' Retirement Association of Colorado.

Edward J. Kiernan, president, International Union of Police Associations, AFL-CIO.

Sgt. William Pattison, Superior Officers Association of Nassau County, National Association of Police Organizations.

J. Harry Wells, board member, Illinois Collaboration on Youth.

If Mr. Robert Thompson, chairman of the board of the Chamber of Commerce of the United States, is present we would let him come forward also.

Mr. THOMPSON. Thank you for accommodating me.

Mr. ANTHONY. Please try your best to stay within the 5-minute time frame. We have three other panels after this one. It will leave more opportunity for members of the subcommittee to ask the questions so the record could be made very clear as far as your position and our positions are concerned.

Your statements will be introduced in full for the record. You will be free to summarize as you see fit.

Mr. Kiernan?

STATEMENT OF EDWARD J. KIERNAN, PRESIDENT, INTERNATIONAL UNION OF POLICE ASSOCIATIONS, AFL-CIO, ACCOMPANIED BY DAVE BAKER, SECRETARY-TREASURER

Mr. KIERNAN. Thank you very much for your courtesy. We appreciate the fact that we are given this opportunity to speak to you and members of the committee on this matter which we feel is very important to us in the police service. I would like to speak on the subject of my testimony but digressing from the testimony as we go along.

I represent some 200 locals in 32 States, the United States, District of Columbia, Virgin Islands, and Canada. Among these locals we represent Federal police officers and the uniformed division of the Secret Service police.

I have been a police officer in New York City for 32 years and the last 10 years were spent as president of the ICPA and now as president of the International Union of Police, AFL-CIO. With me is Dave Baker, our secretary-treasurer, who will augment my testimony if necessary.

Needless to say we are pleased that the committee has not recommended that State and local government employees be mandated into social security. If I could get into that aspect of it, I want to reiterate our previous position taken before this committee in other years on this same subject of mandatory inclusion of police officers into social security and emphasize we are opposed to police officers being mandated into social security in any way shape or form.

The fact of the matter really is that going back into the 1950s, the founding organization from which our International Union has grown was originally established nationwide to fight the then proposed plan to bring police officers into social security. In addition to that I would like for the record to show that our position taken today is that we support wholeheartedly the position taken by the AFL-CIO through its president, Lane Kirkland, and position taken in previous testimony given here by the president of the Public Employees Department, Kenny Blaylock and other Federal union leaders.

Currently Federal employees pay 7 percent of their salary toward a pension plan of their own. This is 7 percent of their take home pay that they don't see. In the event that this committee and this Congress chooses to put these people, mandate them into social security, notwithstanding the suggestion that has not been finalized, and we don't know what it will eventually be, about establishing a supplemental pension plan, what we are talking about in total is that every Federal police officer and Federal employee will have taken out of his salary 14 percent of his pay.

We feel that a penalty of this type imposed on people against their wishes is not really what this Congress is concerned with in its attempts to change social security and support social security. It has been the practice in the past historically that police officers have been involved in systems that grant them early retirement. I guess the basis for that is fairly obvious. I have been a cop for some 40 years, and I don't think that myself today at age 62 could do the job of being a police officer in the city of New York that I was called upon to do when I was a young cop on the job.

I think that the powers that be in local, State and Federal legislatures have taken that into consideration when they allowed establishment of early retirement systems. So most police officers opt out of their job at an early age and then put in, if they go into private employment, some 15 or 20 years, 10 years if you will, into jobs where they are mandated into social security anyhow.

The fact remains that this early retirement a police officer is given is not a benefit given to him unilaterally. It is a benefit given to him because of the stress and conditions of his job. I don't think we have to go too far away from Washington, D.C., to see that Federal police officers are no different than State or local police officers. I think all of us in this room who have been involved last year and this year recall the attempt to assassinate the President, the unfortunate incident where we had a gentleman threatening to blow up the Washington Monument, the unfortunate crash of the airplane into the Potomac River. Most of the people that were involved in these situations were Federal police officers. And their job is no different than the job of a State or local municipal police officer.

We feel they should not be subjected to different treatment than State and local police officers have been guaranteed. We agree with them. We support them. And we urge the subcommittee in its deliberations before the full committee, and eventually the Members of the House and Senate, that consideration be given to police officers. That because of the type of job they do and because of the hazards of their job, that the private pension plans which have been established, which are costly, which the member pays into himself, anywhere from 5 to in some cases 9 or 10 percent of his salary, are established with their desires negotiated in many cases, and the benefits that are built into them are what they are looking for.

They are not looking to be mandated into social security. In that same vein the so-called plan to establish a supplemental pension plan for Federal employees, be they clerical or police or fire or whatever, has not been established in writing in any manner, shape, or form. There is no indication by anybody just what that supplemental plan will contain, whether it will be a diminishment of the benefits police officers who now belong to social security get such as their pension and social security benefits, or will it be less.

What we are asking these people, in effect, is to allow you to mandate them into something where you can't even assure them of what the benefits they are going to get out of it will eventually be. We feel this is an imposition on the part of the Congress to try and do that. We feel like you are asking our people to buy a pig in a poke, if you will.

I don't think we should be placed in that kind of a position. As I said before I support the position of the AFL against mandatory inclusion of Federal employees. But as leader of the police union of the AFL–CIO I specifically oppose the mandating of police officers whether they be Federal, State, or local into the social security system.

I would like to just bring up one question and leave it with you if I could. I will close on that note. In the event the so-called plans as they exist right now go into effect and a supplemental retirement system is established, what is going to happen to those people who have been paying into their private pension plan in the Federal Government? The uniform division of the Secret Service police have been paying into the Washington, D.C., retirement system since its inception. And if the actions as proposed become effective, it is reasonable to assume that ultimately the amount of people belonging to the current system will be diminished and there will be no fresh money coming in.

The indebtedness of that plan, the current plan, is eventually going to bankrupt itself. In effect, you are saying we are going to take the social security system and bolster it by bringing in these Federal police officers, Secret Service police, and others to keep it from going bankrupt. But we are not going to do anything to protect the original system these people have invested their lifetime into. It is eventually going to go bankrupt.

So what we are asking our people to do is bail out the social security system and not worry about their own current system, and eventually that is going to go bankrupt. So, gentlemen, our feelings are consistent with those of the AFL-CIO. They are also consistent with the feelings of our membership throughout the United States and our Federal police membership.

We would sincerely urge you people in your deliberations to give consideration to some of these items I brought up here.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF EDWARD J. KIERNAN, INTERNATIONAL UNION OF POLICE ASSOCIATIONS, AFL-CIO

Mr. Chairman and Members of the Subcommittee: I am Edward J. Kiernan, President of the International Union of Police Associations, AFL-CIO. I represent over 200 locals in thirty-two states plus the District of Columbia, Virgin Islands and Canada. Among these are locals representing federal police officers as well as the Uniformed Division of the Secret Service. I have been a police officer in New York City for 30 years representing the Patrolmen's Benevolent Association for 25 of them and have served as President of the International Conference of Police Associations for 5 years and the IUPA, AFL-CIO for the past five years.

With me today is David Baker, Secretary-Treasurer of the IUPA, from Memphis. Bob Kliesmet, our Vice President, from Milwaukee, unfortunately could not be here today. Needless to say we are pleased that the President's Social Security Advisory Commission has made no recommendation on the inclusion of state and local government employees into Social Security. However, let me reiterate our previous position, taken at other hearings on this same subject, that we are opposed to the mandatory inclusion of all such employees—federal, state or local.

Currently federal employees pay 7 percent of their salary toward a pension plan of their own. If future federal employees are mandated into Social Security plus having to pay into a so-called supplementary pension plan, which as of now has not been established and whose benefits obviously would be diminished when the two plans are ultimately integrated, they would be paying 13 to 15 percent of their take home pay into a system that will not give them a fair share of what their contributions deserve. In effect what you are saying to federal employees is "Pay more and get less."

In regard to police officers, it has been an accepted practice for them to have a retirement plan that calls for early retirement. Being sixty-two years old, I can assure you that I could not perform the hazardous and stressful duties that a cop is called upon to do on a daily basis. As a result most police officers opt for early retirement and avail themselves of the pension which they have contracted with their employers to receive at an early age.

Federal police officers are no different than state or local police officers and their job conditions are the same. One must only recall the tension that existed recently when an individual threatened to blow up the Washington Monument or the tragic crash of the Air Florida plane into the Potomac. The federal police officers involved performed in the same manner as our local and state police officers and should be treated in the same fashion. We have polled our federal police members and they are opposed to being mandated into Social Security. We as their leaders agree with them and urge you to support them at this time of need.

In closing let me place a question before you. In the event that this mandate to include federal police officers and other federal employees into Social Security passes, who is going to provide the funds necessary to maintain the benefits for current and future retirees of federal service when the number of members diminishes to the point where outgo exceeds income in the retirement system? Aren't we creating one deficit system to save another? Aren't you expecting our members to buy a "pig in a poke" knowing they can't win?

I would hope that you would not use our federal, state and local government employees to bail out a system that was not meant to be their responsibility and to expect them to subsidize the federal government.

Thank you.

Mr. ANTHONY. Mr. Pattison?

STATEMENT OF WILLIAM PATTISON, PRESIDENT, NASSAU COUNTY SUPERIOR OFFICERS ASSOCIATION AND LEGISLATIVE COCHAIRMAN, NATIONAL ASSOCIATION OF POLICE ORGANIZATIONS, ACCOMPANIED BY IRA M. LECHNER, LEGISLATIVE COUNSEL, NAPO; AND AL FERGUSON, LEGISLATIVE DIRECTOR, FRATERNAL ORDER OF POLICE

Mr. PATTISON. First I would like to thank the committee for the opportunity to present the views of the National Association of Police Organizations. My name is William Pattison and I am president of the Nassau County Superior Officers Association and the legislative co-chairman of NAPO. With me is our legislative counsel, Ira M. Lechner, and Mr. Al Ferguson, legislative director of the Fraternal Order of Police [FOP], an organization which represents some 157,000 public safety officers all over the country.

We appreciate the chance to present our views on such an important issue as the social security system. The police and public safety officers who put their lives on the line in law enforcement would all like to retire someday after completing their service, and they have a right to expect that the pensions they have worked and paid for will remain secure as the source of their retirement income.

At this time, your committee and the Congress will be faced with the serious considerations concerning the welfare and the financial stability of the social security system. During your deliberations great attention will be focused on the report of the National Commission on Social Security Reform which was recently forwarded to the Congress and the administration. This report is a result of 15 months of work by the Commission, which was promulgated by President Reagan pursuant to Executive Order No. 12335 on December 16, 1981. The Commission was created in response to the continuing deterioration of the financial position of the old age and survivors insurance trust fund, and the inability of the President and the Congress to agree upon a solution.

In carrying out its mandate, the Commission met nine times on approximately a monthly basis. It reviewed the results of many hearings, studies and reports of other public bodies, including the Congress, the 1979 Advisory Council on Social Security, and the 1981 National Commission on Social Security. Although no public hearings were held for witnesses to present their views to the Commission, the Commission did seek the advice of a number of experts and examined a variety of alternative approaches.

On January 20, Chairman Greenspan forwarded the report and its consensus of recommendations for your consideration. One of NAPO's primary concerns is the question of mandatory coverage of noncovered State and local employees, and more particularly, noncovered law enforcement officers with their State or local government. We are aware at this time that there is no formal recommendation or proposal for such coverage, since the Commission only recommended covering newly hired civilian Federal employees.

In light of that recommendation, however, the Commission consistently and almost unanimously agreed that coverage of all State and local noncovered employees would ideally be beneficial. However, many members of the Commission were concerned about the constitutional questions which would surround such coverage, and therefore did not make any recommendations concerning this group. Our remarks are an effort to insure that the committee is fully aware of the impact if such a proposal (to extend coverage to the State and local noncovered sectors) were to be made.

Proposals for extending coverage have been raised in the Congress since 1954 at least five different times. Each time, the Congress, in its wisdom, determined that such coverage would not be in the best interest of the social security system, and that participants in that system not cover employees of State and local governments which employ noncovered individuals.

Each time that the question of extended coverage has been raised, it has always been in association with grim forecasts for the social security system and its financial stability. It is our view that mandatory universal coverage would not solve the long-range funding problems faced by the social security system and defined by the National Commission. Put simply, the workers to whom coverage would be extended would add more tax revenues to the funds, but ultimately they would also receive benefits.

While several groups have estimated that over the next 75 years mandatory coverage of Federal employees would result in a savings of approximately one-half of taxable payroll, these figures in part reflect the fact that under the current structure by which benefit payments are calculated, Federal workers would pay higher taxes relative to the benefits they would receive, especially compared to the average participant in the system. If this weighting of benefits in favor of low income beneficiaries is eliminated, with the result that workers' benefits are more directly proportional to their social security contributions, the savings of the fund will be nonexistent.

Even if the present system of weighting benefits is retained, however, the one-half percent of payroll savings will not solve the economic problems of the social security system in the next 75 years. Thus, one might well conclude, as did the President's Commission on Pension Policy, that mandatory universal coverage cannot be expected to reduce significantly the longrun actuarial deficits of the system.

Moreover, proponents of mandatory coverage have ignored economic reality by asserting that even this small amount would represent a savings to the Federal Government. Clearly, any net gain to the social security funds as a result of mandatory coverage of Government workers would be offset by an increase of the burden upon the taxpayers. This is because if benefits are not cut, and employee costs are not raised, the excess tax paid to the social security fund would simply result in increased costs paid by employers to their other retirement plans. Since the Federal, State, and local governments are the employers, this increased cost would ultimately be borne by the taxpayer.

Typically, for State, local, and public retirement systems, the extension of social security coverage would be quite expensive. Moreover, figures are difficult to calculate because retirement plans already existing vary greatly and because various jurisdictions could select widely divergent coordination plans. Nonetheless, the Universal Social Security Coverage Study Group found that a study of a variety of alternative designs demonstrated that the total cost of coordinated public employer retirement system plans plus social security tax payments would substantially exceed (generally by 5 to 10 percent of payroll) the cost of the existing, noncoordinated retirement plans. The bottom line is significantly increased costs for State and local government and for the American taxpayer.

NAPO would also like to remind the Congress that in recent years, the administration and the Congress have shown a distaste for the Federal Government extending its influence, by law and regulation, over every aspect of the economic and social life of the Nation. There has been a growing feeling that limiting the size of Federal Government intervention and allowing States to exercise their sovereign authority is not only consistent with our constitutional scheme, but also beneficial to the Nation as a whole.

We believe one area where the Federal Government should not be involved is in the structuring of the relationships between the State and local governments and their employees. These relationships certainly have traditionally included the retirement systems for State and local employees. Mandatory social security coverage would be in direct conflict with this philosophy.

We would point out to this distinguished committee that State and local employees have a long-term investment in their present retirement systems, and we believe that it would be totally unfair to them to attempt to change it in midstream now. The States as employers were aready providing their employees retirement benefits when social security was first created in 1931, and as I am sure you are aware, for the first 15 years of the social security system, public employees were excluded and not permitted to join the system, even had they so desired.

State governments and their employees have developed and structured their own retirement systems, taking into account their exclusion from this coverage. In order to attract employees to State and local governments, they found it necessary to improve their systems and did so. While total exclusion was ended in 1951, when

State and local retirement systems were given the option voluntarily to affiliate with the social security system, many systems have not done so.

Although we feel there are many, many compelling arguments in opposition to mandatory coverage—such as the possible substantial reduction in capital formation which is provided by the investment portfolios of State and local government systems—we feel the most compelling argument is the constitutional question which surrounds this issue.

Issues of federalism are raised when one proposes mandatory participation in the social security system by State and local governments and their employees. Proponents of mandatory universal coverage have suggested at least two ways that mandatory coverage might be implemented.

The first and most obvious method of implementing mandatory coverage would be simply to dictate that State and local governments be treated like all other employers and would be required to pay an employer tax to the Federal Government on all salaries paid to their employees, similar to the tax placed on private employers.

The basic problem with this approach is that Federal imposition of an employer tax on State governments would impinge on the fundamental right and responsibility of the State to determine its own employment policies; specifically, the compensation package made available by the State and local government to attract or retain government personnel. Indeed, it is hard to imagine an area of authority more fundamentally related to the business of running the State.

Even the most avid proponents of mandatory universal coverage seemed to recognize this as a problem of constitutional dimensions. To avoid this obvious problem, some have suggested a second way that coverage might be implemented: that is, that Congress simply require State and local employees to pay both the employer and employee contributions, and not impose any tax on State and local governments at all.

However, the imposition of a discriminatory tax upon those who work for the government would be no less offensive to the theory of federalism than a direct tax upon the States themselves. Both have traditionally and repeatedly been found by the Supreme Court to be in violation of the principles of federalism embodied in the Constitution.

We believe this constitutional principle of federalism has most recently been reaffirmed by the U.S. Supreme Court in the *National League of Cities* v. *Usery,* a case which held that the State and local governments could not be compelled to accept Federal minimum wage and maximum hour standards because this would interfere with the fundamental right of the States to shape and determine the employment relationships with their employees.

Likewise, we believe the question of mandatory coverage would receive the same consideration from the courts. I would like to close by assuring the committee that NAPO's interests are not shortsighted, and that we do have a concern that the social security system be funded on a sound basis and benefits be maintained for those individuals who have paid into the system throughout the years, for some of our members in fact are in systems where social security coverage is provided.

However, to arbitrarily include those employees who have designed, paid for and have been promised benefits from retirement systems which were excluded from coverage previously would be an unfair and unwise act. I would be more than happy to answer any questions which the committee might have.

Mr. MATSUI. Mr. Wells?

STATEMENT OF J. HARRY WELLS, EXECUTIVE DIRECTOR, OMNI-HOUSE YOUTH SERVICES BUREAU, AND BOARD MEMBER, ILLINOIS COLLABORATION ON YOUTH

Mr. WELLS. My name is Harry Wells. I am here as a representative of small community-based, nonprofit human service organizations. I believe this is a constituency that has not been heard from so far. My official capacity is executive director of one of those organizations—Omni-House Youth Services Bureau—located in the Chicago area. I am also a spokesman for the Illinois Collaboration on Youth—a statewide association of 200 youth and family service agencies that are charitably supported and run by volunteer citizen boards of directors.

I am here to bring to your attention as strongly as I can the negative results that will be brought about by forcing nearly 40,000 nonprofit organizations and 1.4 million human service workers to cough up 13½ percent of their payroll to FICA with only 9 months notice. If I might be a bit dramatic, quite bluntly, Congressman, this particular recommendation by the Commission should be under the heading of "Now that we've got them on their knees, let's kick 'em in the teeth." We are the small service providers throughout this Nation that have sustained losses amounting to billions of Federal and State dollars that once were supporting direct services to people.

We have been struggling against great odds in recent years to remain financially viable while at the same time we have been under severe pressure to serve record numbers of clients who need our services due to unemployment, family disintegration, and substance abuse.

How, in good conscience and with any sense of reasonable fairness can the Federal Government require these 1.4 million notoriously underpaid human service workers to bear the full brunt of inclusion in social security, while the 4.8 million State and local government employees, currently exempt from FICA, will be allowed to stay out?

With what sense of fairness can the 3.1 million Federal workers who are currently exempt from social security be granted a grandfather clause, while the nonprofit workers now exempt must be included without such consideration.

In practical terms nonprofit community-based agencies like Omni-House will lose nearly 14 percent of the resources now available for payroll. Since normally 90 percent of a small agency's budget is for personnel to provide services to people, this 14-percent reduction is equivalent to at least a full 10-percent reduction in each agency's total budget. This is a devastating amount for organizations who have already withstood double-digit reductions in State and Federal funding.

In the case of Omni-House it will mean that $75,000 now used to support direct services will be redirected to FICA and we will lose four full time delinquency prevention and family treatment counselors. It seems to be very ironic that we must add to the ranks of the unemployed and therefore to the over $2 billion debt owed by Illinois to the Federal Government for unemployment insurance while we are trying to solve the problems of social security.

State and local governments can tax the public for increases in their payroll taxes, nonprofits can only hope for the miracle that somehow the already overwhelmed philanthropic community will not only replace the billions of dollars already cut from the Federal budget but also fund our forced entry into social security. I assure you this is a very dim hope.

We do have recommendations to deal with the situation. At minimum, continued exemption for small community based 501-C-3 organizations should be considered. After all, these are the very agenies that are most effective in serving people locally and preventing costly federally subsidized institutional care—whether it be mental health, retardation, corrections, delinquency, or welfare programs.

Better yet, the main hope we have is that the Social Security Reform Act would be passed with the same grandfather clause for nonprofit organizations as given to State and local governments. The inclusion of the 1.4 million nonprofit workers now out of the system will be a very small contribution to the solution of the social security problem, but it will be a very large blow to the nonprofit agency trying to survive and respond to the increased calls for help by local citizens.

In closing, I appeal to your basic sense of fairness to help us get up off our knees again by giving the same protection to the nonprofit community that would be given to Government workers throughout the Nation. Don't reduce our capabilities any further. The potential significant damage to our ability to serve people will far outweigh any contribution made to social security.

Thank you.

Mr. ANTHONY. Thank you, Mr. Wells.

Mr. Thompson, if you are not running a time problem, if we could run to Mr. Lantry, it appears some of your statements are going to be in contradiction of their position, and we might get into a free-for-all.

Mr. THOMPSON. That is fine.

STATEMENT OF DR. TERRY LANTRY, CHAIRMAN, COLORADO PUBLIC EMPLOYEES RETIREMENT ASSOCIATION AND PRESIDENT, ORGANIZATION FOR THE PRESERVATION OF THE PUBLIC EMPLOYEES RETIREMENT INDUSTRY AND OPPOSITION TO SOCIAL SECURITY EXPANSION TO SUCH INDUSTRY

Dr. LANTRY. Thank you, Mr. Chairman. We appreciate the opportunity to testify on behalf of the Colorado Employment Retirees Association which includes a hundred thousand public employees, plus 22,000 retired persons and beneficiaries.

PERA is the 44th largest retirement system in the United States in terms of monetary assets which total $2.7 billion.

I am proud to say that we anticipate being able to report to our membership that on a liquidation basis the fair market value of our assets would be able to retire $1 of liability by $1.60 of assets of our fund which obviously explains our concern when we are invited to join social security.

I am also president of an organization called the Organization for the Preservation of the Public Employees Retirement Industry and Opposition to Social Security Expansion to Such Industry, which includes public employee groups in Nevada, Ohio, and Massachusetts as well as Colorado. These same four organizations in those States are members of a larger group of 24 nonsocial security systems holding some $50 billion of assets which are invested in the production capacity of the United States in the form of common stocks, corporate bonds, U.S. Treasury notes, and real estate mortgages.

We appear particularly to endorse the wise recommendation of the National Commission on Social Security Reform to exclude State and local workers from mandatory social security coverage.

We have opposed and will continue to oppose vigorously the encroachment represented by efforts to mandate social security coverage of State and local workers. We do so for the following reasons:

First, the effort is contrary to the 10th and 14th amendments to the Constitution of the United States, and, if pursued, will be reversed by the courts, resulting in disarray in the social security program and the public perception of that program, which is already shaken.

Perhaps the argument could be succinctly summarized in the following words: The imposition of mandatory social security coverage upon State and local employees would violate the doctrine of federalism embodied in the 10th amendment to the U.S. Constitution.

As the U.S. Supreme Court has recently explained, our Nation is composed of a National Government and independent sovereign State governments. If the Federal Government could dictate to the States how they structure their relationships with their employees, there would be nothing left of the States' independent existence. This would make our States mere appendages of a central government and it would undermine our Federal system, a bulwark of our independence and freedom. Including State and local employees merely to provide symmetry for our universal social security system is hardly worth this threat to this basic concept of freedom.

To reinforce this position, we attach to this testimony a copy of our legal counsel's opinion on the subject, which we previously provided to the Commission.

As you know, the report of the National Commission recognized that there is a serious constitutional problem in this area.

The second reason for opposing our being mandated into the system is, mandatory social security coverage would impose enormous tax burdens upon State and local governments. The report of the Actuarial Education and Reserach Fund, prepared under contract with the Universal Social Security Coverage Study Group, and summarized in that group's March 1980 report, conclusively establishes the higher cost burdens that would be transferred to State and local government.

This study, performed by 13 independent actuaries, analyzed 25 of the larger State systems and illustrated proposed new benefits in those systems coordinated with social security.

One of the key findings summarized in the study—page 6—page 195 of the Universal Social Security Coverage Study Group's report, a copy of which is attached—was that the overall actuarial costs of the proposed coordinate plans, including social security taxes, generally increased by 4 percent to 8 percent of payroll in comparison to present costs.

For the State of Colorado, this represents an additional tax burden of between $80 and $160 million per year.

Almost all State budgets, including Colorado's, are hard pressed due to the current economic recession. As a matter of fact, our current legislative session is exploring tax increases of an additional $100 to $120 million per year, probably through levy of an additional 1 percent State sales tax. It is obvious that any plan that both includes mandatory social security and maintains the present benefit level will impose additional tax burdens upon the affected States.

Therefore, it appears likely that, if costs are maintained at their present level, a severe cutback in benefits will be required. Given the current social security rate, PERA would be left with about 5 percent of payroll after payment of the social security rates, or about 25 percent of its previous total income.

Our actuary, who was one of the 13 previously referred to in the AERF study, has determined that this cost structure would require the following of our retirement benefit plan:

Reduction of the unit benefit percentage from 2.5 percent to 1 percent, or a reduction in retirement benefits of 60 percent;

Elimination of all benefits to widows and children;

Elimination of all disability benefits;

Termination of all future payments of the postretirement COLA; and

Substantial increases in the eligible retirement age.

It is obvious that these severe cutbacks would result in major changes in the promises made to current workers and possibly abrogation of rights in which they already have a legally vested interest.

Colorado public employees are opposed to mandatory coverage because of the disastrous effect it would have on our pension system.

In that regard, we have been categorized as double dippers or identified as persons who want to participate in the benefits of social security without fully paying for those benefits.

Our members oppose mandatory social security not because we want to double dip. In principle, we support the National Commission's efforts to correct the windfall problem.

In the last Congress, we endorsed and supported the measure advocated by Congressman Pickle in H.R. 3207 over a year ago, and we affirm our consistent support of his proposal since that time.

We encourage this committee to support Congressman Pickle's effort to correct the windfall situation without suffering the devastating effect of mandatory coverage, which is analogous to using a baseball bat to kill a troublesome fly.

Colorado's plan was started in 1931, almost 5 years prior to the enactment of social security; public employees were not only excluded from social security for its first 16 years, it was not possible for them to affiliate even voluntarily with social security until 1951.

Since 1951, the method by which over 10.2 million State and local employees have been affiliated with social security—report of the National Commission, table 15—has been through voluntary affiliation and through referendum of those affected.

Although much has been said about the groups which are opting out, substantial numbers of State and local workers have been opting in.

Basically, to summarize our arguments, our opposition to mandatory social security is due to its devastating immediate effect upon benefits offered currently by our retirement plans. We should not be charged with the responsibility for the present financial ailments of social security since we have spent many years developing our own retirement systems at the State and local levels.

It also struck me in listening to some of the other people who have been offering testimony to you that there may be a much broader national policy issue involved in making sure that State and local governments are not mandated into social security.

As one of the last bastions for the accumulation of capital in the United States, our continued existence in our current form may be vitally necessary to the economic renewal of the U.S. economy, which is in such trouble as of this date.

Thank you.

Mr. MATSUI. Thank you, Mr. Lantry.

Dr. LANTRY. Excuse me, Mr. Chairman.

On counsel's advice, I was to ask your permission to have included in the record a copy of our brief on the constitutional issue and a copy supporting the statistics that I have given as testimony and, in addition, a press release that has been made.

Mr. MATSUI. Without objection, all of those items will be entered into the record.

Dr. LANTRY. Thank you very much.

[Portions of the material referred to follow. The brief has been retained in the subcommittee files.]

STATEMENT OF TERRY LANTRY ON BEHALF OF COLORADO'S PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION AND ORGANIZATION FOR THE PRESERVATION OF THE PUBLIC EMPLOYEES' RETIREMENT INDUSTRY AND OPPOSITION TO SOCIAL SECURITY EXPANSION TO SUCH INDUSTRY

Mr. Chairman, we appreciate the opportunity afforded us to testify on behalf of Colorado's Public Employees' Retirement Association, which includes 100,000 public employees plus 22,000 retired persons and beneficiaries. I also am president of the Organization for the Preservation of the Public Employees' Retirement Industry and Opposition to Social Security Expansion to Such Industry (OPPOSE), which includes public employee groups in Nevada, Ohio and Massachusetts, as well as Colorado.

We appear particularly to endorse the wise recommendation of the National Commission on Social Security Reform to exclude State and local workers from mandatory social security coverage. We have opposed, and will continue to oppose vigorously, the encroachment represented by efforts to mandate social security coverage of State and local workers. We do so for the following reasons:

(1) The effort is contrary to the 10th and 14th amendments to the Constitution of the United States and, if pursued, will be reversed by the courts, resulting in disarray in the social security program and the public perception of that program, which is already shaken.

To reinforce this position, we attach to this testimony a copy of our legal counsel's opinion on the subject, which we previously provided to the Commission. As you know, the report of the National Commission recognized that there is a serious constitutional problem in this area.

(2) Mandatory social security coverage would impose enormous tax burdens upon State and local governments. The report of the Actuarial Education and Research Fund, prepared under contract with the Universal Social Security Coverage Study Group (and summarized in that group's March 1980 report) conclusively establishes the higher cost burdens that would be transferred to State and local government. This study, performed by 13 independent actuaries, analyzed 25 of the larger State systems and illustrated proposed new benefits in those systems coordinated with social security. One of the key findings summarized in the study (page 6–page 195 of the Universal Social Security Coverage Study Group's report, a copy of which is attached) was that the overall actuarial costs of the proposed coordinated plans, including social security taxes, generally increased by 4 percent to 8 percent of payroll in comparison to present costs. For the State of Colorado, this represents an additional tax burden of between $80 and $160 million per year. Almost all State budgets, including Colorado's, are hard pressed due to the current economic recession. As a matter of fact, our current legislative session is exploring tax increases of an additional $100 to $120 million per year, probably through levy of an additional 1 percent States sales tax. It is obvious that any plan that both includes mandatory social security and maintains the present benefit level will impose additional tax burdens upon the affected States.

(3) Therefore, it appears likely that, if costs are maintained at their present level, a severe cutback in benefits will be required. Given the current social security rate, PERA would be left with about 5 percent of payroll after payment of the social security rates (or about 25 percent of its previous total income). Our actuary (who was one of the 13 previously referred to in the AERF study) has determined that this cost structure would require the following:

(A) Reduction of the unit benefit percentage from 2½ percent to 1 percent (or a reduction in retirement benefits of 60 percent);

(B) Elimination of all benefits to widows and children;

(C) Elimination of all disability benefits;

(D) Termination of all future payments of the post-retirement COLA;

(E) Substantial increases in the eligible retirement age.

It is obvious that these severe cutbacks would result in major changes in the promises made to current workers and, possibly, abrogation of rights in which they already have a legally vested interest.

(4) Colorado public employees are opposed to mandatory coverage because of the disastrous effect it would have on our pension system. In that regard, we have been categorized as "double dippers" or identified as persons who want to participate in the benefits of social security without fully paying for those benefits. Our members oppose mandatory social security not because we want to "double dip." In principle, we support the National Commission's efforts to correct the "windfall" problem. In the last Congress, we endorsed and supported the measure advocated by Congressman Pickle in H.R. 3207 over a year ago—and we affirm our consistent support of his proposal since that time. We encourage this committee to support Congressman Pickle's effort to correct the windfall situation without suffering the devastating effect of mandatory coverage—which is analogous to using a baseball bat to kill a troublesome fly.

(5) Colorado's plan was started in 1931—almost 5 years prior to the enactment of social security; public employees were not only excluded from social security for its first 16 years, it was not possible for them to affiliate even voluntarily with social security until 1951.

Since 1951, the method by which over 10.2 million State and local employees have been affiliated with social security (report of the National Commission, table 15) has been through voluntary affiliation and through referendum of those affected. Although much has been said about the groups which are "opting out," substantial numbers of State and local workers have been "opting in."

Basically, our opposition to mandatory social security is due to its devastating immediate effect upon benefits offered currently by our retirement plans. We should not be charged with the responsibility for the present financial ailments of social security since we have spent many years developing our own retirement systems at the State and local levels.

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TABLE 6-24. INCREASE IN TOTAL EMPLOYER-EMPLOYEE RETIREMENT COSTS (PLAN PLUS SOCIAL SECURITY TAXES) EXPRESSED AS A PERCENTAGE OF PAYROLL

		Constant-Benefit Step-Rate Plan	
Plan	Current Plan	Percentage-Point Increase Assuming 12.26% Combined Social Security Taxes	Percentage-Point Increase Assuming 15.30% Combined Social Security Taxes
		(percentage of payroll)	
Large plans		Mean 4.98%	Mean 7.88%
(1,000+ members)		Median 4.35	Median 7.55
H1 – t[a]	11.89%	5.58%	8.62%
H2 – p,f	14.83	6.38	9.42
H3 – g,t,p,f	16.81	4.21[b]	7.23[c]
H4 – g	16.27	1.83	4.87
H5 – g	12.72	5.45[b]	8.23[c]
H6 – t	18.92	3.60	5.64
L1 – g	7.82	9.78	12.82
L3 – g	14.39	3.66[b]	6.56[c]
L6 – g	15.68	4.35[b]	7.55
Medium-size plans		Mean 4.21	Mean 7.01
(100-999 members)		Median 4.33	Median 7.37
M1 – p	20.91	4.33	7.37
M2 – g,p,f	19.87	3.47	6.51
M3 – p,f	12.11	6.11[b]	9.25
M4 – p	19.15	5.00[b]	6.34
M5 – g,p,f	19.68	1.34[b]	3.84[c]
M6 – g,p,f	19.73	2.25[b]	5.27[c]
M7 – f	16.09	6.28	9.32
M8 – f	30.06	0.80	3.84
M9 – p,f	23.13	8.33	11.37
Small plans		Mean 4.72	Mean 7.75
(less than 100 members)		Median 6.70	Median 8.44
S1 – p	17.87	5.43	8.44
S2 – p,f	13.66	6.70	9.74
S5 – p	22.72	6.87	9.91
S6 – p	17.51	3.64	6.68
T1 – p	31.58	4.46	7.50
T3 – f	38.50	-1.00	+2.04
T4 – p,f	23.90	6.95	9.99

[a] In this coding, f = firefighter plan, g = general public employee plan, p = police plan, and t = teacher plan.

[b] Combined Social Security taxes somewhat below 12.26 percent because of salaries above the wage base.

[c] Combined Social Security taxes somewhat below 15.30 percent because of salaries above the wage base.

SOURCE: Calculated from AERF study data.

[Press release, Feb. 9, 1983]

OPPOSE

A spokesman for state and local employees not covered by Social Security today urged members of the House Subcommittee on Social Security to follow the recommendation of the National Commission on Social Security Reform not to include state and local workers in the Social Security system on an involuntary basis.

Appearing on behalf of Colorado's Public Employees' Retirement Association (PERA) and the Organization for the Preservation of the Public Employees' Retirement Industry and Opposition to Social Security Expansion to such Industry (OPPOSE), whose members include employees in Colorado, Nevada, Ohio, and Massachusetts, Dr. Terry Lantry pointed out that the imposition of mandatory Social Security coverage upon state and local employees would violate the doctrine of federalism embodied in the tenth amendment to the United States Constitution. As the U.S. Supreme Court has recently explained, our nation is composed of a national government and independent sovereign state governments. If the federal government could dictate to the states how they structure their relationships with their employees, there would be nothing left of the states' independent existence. "This would make our States mere appendages of a central government and would undermine our Federal system, a bulwark of our independence and freedom," Dr. Lantry stated. "Including state and local employees merely to provide symmetry for a universal social security system is hardly worth this threat to our freedoms."

Dr. Lantry also pointed out that the independent public retirement systems have invested heavily in the financial markets of the United States. The total value of assets of the 200 largest funds is approximately $50 billion. Examples of these funds include Colorado's PERA, with assets valued at $2.7 billion; Ohio's public employees' fund, valued at $6.3 billion; Texas' teachers' fund, valued at $7.3 billion; Illinois' teachers' fund, valued at $2.9 billion; Missouri's public school employees' fund, valued at $1.5 billion; California's teachers' fund, valued at $7.3 billion; and Tampa's police and firefighters' fund, with assets worth $86 million. Most of these funds are invested in common stocks, corporate bonds, U.S. treasury notes, and real estate mortgages. Dr. Lantry explained that the transfer of these funds from these financial markets to the Social Security trust funds, where they are paid out and not invested, could jeopardize the economy at a time when it is already suffering the severe effects of a recession.

Total assets as of September 30, 1982 of non-social security systems[1]

Texas Teachers System	$7,313,000,000
California State Teachers	7,298,000,000
Ohio Public Employees	6,291,000,000
Ohio Teachers	6,176,000,000
Illinois Teachers' System	2,890,000,000
Colorado Public	2,760,000,000
Connecticut Systems	2,000,000,000
MA Employees-Teachers	1,942,000,000
Louisiana Teachers	1,574,000,000
Missouri Public School	1,467,000,000
Chicago Teachers Fund	1,280,000,000
Ohio Police and Firemen	1,228,000,000
Ohio School Employees	1,172,000,000
Kentucky Teachers	1,098,000,000
LA City Fire and Police	1,028,000,000
Louisiana State	901,000,000
Nevada Public Employees	777,000,000
Chicago Municipal	717,000,000
Chicago Police	496,000,000
Arizona Public Safety	400,000,000
Denver Public Schools	331,000,000
Chicago Firemen's Fund	305,000,000
Boston Retirement	278,000,000
Tampa Police and Fire	86,000,000
Total	49,808,000,000

[1] This is not a complete list.

Source: Pensions and Investment Age—Jan. 24, 1983.

Mr. MATSUI. I would like to call Mr. Thompson to testify.

STATEMENT OF ROBERT T. THOMPSON, CHAIRMAN OF THE BOARD, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. THOMPSON. Thank you, Mr. Chairman. I am Robert Thompson, senior partner of Thompson, Mann & Hutson of Greenville, S.C., with offices in Columbia, S.C., Washington, D.C., and Atlanta.

I appear this morning on behalf of the U.S. Chamber of Commerce where I am presently the chairman of the board.

I am pleased to have the opportunity to present the U.S. Chamber's recommendations on social security, recommendations which I might add were adopted this morning by our board of directors following several weeks of careful study of the recommendations of the National Commission on Social Security Reform.

Before explaining our reactions to the Commission's report and our recommendations to you, I should like to summarize the chamber's policy on social security.

Social security is perhaps the most important Government program touching upon the lives of every American citizen. It provides vital income assistance to our elderly and disabled and their dependents. As such, we have no interest in dismantling social security. But social security has continued to expand far beyond its original function of a floor of protection on which private retirement savings can and should be built.

We believe the time has come to slow that expansion, look more to private sector efforts to provide retirement income and spare our children and grandchildren from the excessive tax burden social security would exact upon them in the next century.

The compromise package produced by the National Commission on Social Security Reform consists of four major components:

An increase in employer, employee and self-employed payroll taxes;

A delay of 6 months in the effective date for future cost-of-living adjustments with a stabilizing device to take effect in 1988;

A tax on social security benefits of individuals with adjusted gross income of $20,000 or more and couples with $25,000 or more; and

An extension of social security to new Federal employees and all nonprofit organizations.

Several other components, while important to the compromise, are not critical to our discussion this morning and our comments on these are reserved to the statement to be filed for the record. We will also file technical comments for the record.

The Commission's report presents the Congress with three options. Congress can reject its recommendations, accept them without change, or improve upon the Commission's recommendations.

From our perspective, there are persuasive reasons why Congress should reject this report's compromise solution and reasons why Congress should accept it.

The reasons for rejecting the report are several.

First and foremost, the bipartisan compromise is not a complete solution. The Commission admits it does not resolve the long-term crisis nor does it suggest how the medicare crisis might be resolved.

Now, there is some evidence that the short-term crisis may not be corrected by the compromise either. The American public wants Congress to make the hard choices required to restore full solvency to social security.

Second, the compromise is tax heavy—$111 billion over the next 6 years—and these taxes will measurably slow economic recovery and growth. Prior to the release of the Commission's report, the Chamber's Economic Forecast Center projected the impact tax increases of this magnitude might have on the economy.

Using a macroeconomic model, the study found that any acceleration in the scheduled payroll tax increases would substantially reduce aggregate economic activity and increase unemployment.

Depending upon the extent to which the scheduled tax increases are accelerated, the result would be a gross national product $18.3 billion to $112.6 billion lower and, more importantly, increased unemployment of 600,000 to 2.2 million by 1990.

Slower growth and less employment will mean less revenues for social security. That is exactly what occurred following the 1977 social security tax hike.

Third, the Commission's recommendations violate several principles on which social security has relied since its inception over 40 years ago. Of particular concern is the massive introduction of general revenue financing and the taxation of benefits.

General revenue financing undermines the fiscal discipline so necessary to adequate funding of the program. It substitutes IOU's for payroll taxes.

Taxing benefits, as suggested by the Commission, introduces a needs test and undermines efforts to encourage supplemental retirement savings.

Finally, the Commission, after carefully documenting overescalation of benefits as a contributing cause of the current problems and demonstrating the need to slow future escalation of benefits, fails to include correction of the problem in its recommendations.

The arguments why Congress ought to accept the compromise report include the very important consideration that there is little time to construct another solution that everyone could accept. Moreover, the compromise is an exceedingly fragile one. Should Congress accept the pleas of any group to eliminate some important element, the entire package could be threatened.

We have a number of recommendations which we have included in our written testimony and which we will submit for the record.

In summary, the Chamber of Commerce of the United States commends the National Commission on Social Security Reform for its conclusion that the fundamental structure of the social security system must be retained; for its diligent bipartisan efforts in clarifying and offering proposals to solve your subsequent short-term social security financing problems and for the constructive contribution it has made in placing these issues before the Congress and the public.

Among the changes that Congress should give careful consideration is expanding the coverage of employees to full universal coverage; COLA formulas and a gradual increase in the normal retirement age and adjustment of the rates by which benefits replace wages in the long-term and avoiding reliance on increased payroll taxes or general revenue financing.

American citizens need to have their Government solve these massive problems in a manner which guarantees their vital system will continue to function in the future with fairness and integrity.

Mr. Chairman, this completes my oral statement and in depth testimony is to be filed for the record and we will supplement this with a techical comment to be filed for the record.

If there are further hearings on deliberations, we would like the opportunity to participate.

Thank you for allowing us to participate today and I personally thank you for allowing me to appear out of order.

[The prepared statement follows:]

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES PRESENTED BY ROBERT T. THOMPSON

I am Robert T. Thompson, Senior Partner of Thompson, Mann and Hutson of Greenville, South Carolina with offices in Columbia, South Carolina, Washington, D.C., and Atlanta. I appear this morning on behalf of the U.S. Chamber of Commerce where I am presently the Chairman of the Board.

I am pleased to have the opportunity to present the U.S. Chamber's recommendations on Social Security * * * recommendations which I might add were adopted this morning by our Board of Directors following several weeks of careful study of the recommendations of the National Commission on Social Security Reform.

BACKGROUND

Before explaining our relations to the Commission's report and our recommendations to you, I should like to summarize the Chamber's policy on Social Security.

Social Security is perhaps the most important government program touching upon the lives of every American citizen. It provides vital income assistance to our elderly and disabled and their dependents. As such, we have no interest in dismantling Social Security. But Social Security has continued to expand far beyond its original function of a floor of protection on which private retirement savings can and should be built. We believe the time has come to slow that expansion, look more to private sector efforts to provide retirement income and spare our children and grandchildren from the excessive tax burden Social Security would exact upon them in the next century.

The compromise package produced by the National Commission on Social Security Reform consists of four major components:

An increase in employer, employee and self-employed payroll taxes;

A delay of 6 months in the effective date for future cost of living adjustments with a stabilizing device to take effect in 1988;

A tax on Social Security Benefits of individuals with adjusted gross income of $20,000 or more and couples with $25,000 or more; and,

An extension of Social Security to new federal employees and all non-profit organizations.

Several other components, while important to the compromise, are not critical to our discussion this morning and our comments on these are reserved to the statement to be filed for the record. We will also file technical comments for the record.

The Commission's report presents the Congress with three options. Congress can reject its recommendations, accept them without change, or improve upon the Commission's recommendations.

From our perspective, there are persuasive reasons why Congress should reject this report's compromise solution and reasons why Congress should accept it.

The reasons for rejecting the report are several. First and foremost, the bi-partisan compromise is not a complete solution. The Commission admits it does not resolve the long-term crisis nor does it suggest how the Medicare crisis might be resolved. Now, there is some evidence that the short-term crisis may not be corrected by the compromise either. The American public wants Congress to make the hard choices required to restore full solvency to Social Security.

Second, the compromise is tax heavy—$111 billion over the next six years—and these taxes will measurably slow economic recovery and growth. Prior to the release of the Commission's report, the Chamber's Economic Forecast Center projected the impact tax increases of this magnitude might have on the economy. Using a macroeconomic model, the study found that any acceleration in the scheduled payroll tax increases would substantially reduce aggregate economic activity and increase unemployment. Depending upon the extent to which the scheduled tax increases are accelerated, the result would be a gross national product $18.3 billion to $112.6 billion lower and, more importantly, increased unemployment of 600,000 to 2.2 million by 1990. Slower growth and less employment will mean less revenues for Social Security. That is exactly what occurred following the 1977 Social Security tax hike.

Third, the Commission's recommendations violate several principles on which Social Security has relied since its inception over 40 years ago. Of particular concern is the massive introduction of general revenue financing and the taxation of benefits. General revenue financing undermines the fiscal discipline so necessary to adequate funding of the program. It substitutes IOU's for payroll taxes. Taxing benefits, as suggested by the Commission, introduces a needs test and undermines efforts to encourage supplemental retirement savings.

Finally, the Commission, after carefully documenting over-escalation of benefits as a contributing cause of the current problems and demonstrating the need to slow future escalation of benefits, fails to include correction of the problem in its recommendations.

The arguments why Congress ought to accept the compromise report include the very important consideration that there is little time to construct another solution that everyone could accept. Moreover, the compromise is an exceedingly fragile one. Should Congress accept the pleas of any group to eliminate some important element, the entire package could be threatened.

CHAMBER RECOMMENDATIONS

Faced with choosing between political realities and long held principles, the Chamber urges the Congress to accept the Commission's compromise as a necessary beginning for constructing a balanced and complete solution to the financial ills confronting Social Security.

Specifically, we recommend that the Commission's compromise be improved by adopting the following additions:

SHORT-TERM IMPROVEMENTS

To respond to the short-term financial crisis, the Chamber recommends that:

1. We do not believe the commission's report goes far enough to alleviate the primary cause of Social Security's short-term financial problems. Specifically, automatic cost-of-living adjustments are in need of structural reform. We recommend that the COLA delay as well as stabilizer provisions be strengthened by expanding the delay to twelve months and, thereafter, a COLA formula of 60 percent of CPI be initiated. This permanent change in the COLA formula would place Social Security increases on parity with the past long-run average COLA yield in private industry. This change would dramatically increase the solvency of Social Security and significantly add to the level of public confidence advocated by the Commission. The Commission in its report recognized the need for Congress to enact some failsafe, or last resort, mechanism to assure the solvency of the Social Security Trust Funds in the very unlikely event that the combination of short-term reforms plus stabilizers proved inadequate. The COLA change we advocate would greatly reduce the likelihood that a failsafe would ever be necessary. The Chamber supports the objective of a failsafe, but would oppose the use of general revenues, even on a temporary basis, for this purpose.

We expressly caution against over-reliance on payroll taxes as a solution to the financial problems facing Social Security. Increasing payroll taxes will slow economic recovery, increase unemployment and affect the financial capacity of business, particularly small firms.

2. The recommendation to cover new federal employees should be expanded to other federal, state and local government employees with full universal coverage as the goal.

3. Consistent with the Commission's recommendation that Social Security benefits continue to be available without regard to financial need, the benefits should not be subject to income taxation. The revenues associated with this provision should be more equitably recovered through appropriate revisions of the COLA provisions and expanded coverage of federal, state and local government employees.

4. Introduction of general revenue financing would undermine the structural discipline of the Social Security program. The 1984 tax credit for the accelerated portion of the payroll tax would not contribute to the financial solution of Social Secu-

rity's problems, but it would increase the federal deficit. We urge you to delete this element from the compromise.

LONG-TERM IMPROVEMENTS

To complete the solution of the long-term financial imbalance of Social Security's trust funds, the Chamber supports the recommendation of the majority of the Commission's members to gradually increase the normal retirement age. In addition, the Chamber would recommend a moderation of future growth in real terms of Social Security benefits. Therefore, consideration should be given to reducing the rate by which benefits replace wages.

MEDICARE

The Commission has chosen not to deal specifically with the serious financial imbalance that will affect the Medicare Hospital Insurance Trust Fund beginning in the 1990's. Instead, the Social Security Advisory Council will address this problem. Congress should acknowledge this problem and press on to complete the solution to the total problem of the combined Social Security Trust Funds as promptly as possible.

SUMMARY

The Chamber of Commerce of the United States commends the National Commission on Social Security Reform for its conclusion that the fundamental structure of the Social Security system must be retained; for its diligent, bi-partisan efforts in clarifying and offering proposals to solve urgent short-term Social Security financing problems; and for the constructive contribution it has made in placing these issues before the Congress and the public.

The Commission acknowledges that its proposals do not entirely solve the long-term problems in the system; those should be addressed so that younger workers can have confidence in Social Security and our government's commitment to this important program. For the near term, further refinements can be made to assure that deficiencies are fully corrected and that emergency action is not again necessary in a few years. Most importantly, the burdens of the corrections must be shared equitably by employees, employers and retirees.

Among changes that the Congress should give careful consideration are expanding the coverage of federal employees toward a goal of full universal coverage; further adjustments of COLA formulas; a gradual increase in the normal retirement age; an adjustment of the rate by which benefits replace wages in the long term; and avoiding reliance on increased payroll taxes or general revenue financing.

American citizens need to have their government solve these massive problems in a manner which guarantees this vital system will continue to function in the future with fairness and integrity.

Mr. Chairman, this completes my oral statement. An indepth testimony is to be filed for the record and we will supplement this with technical comments to be filed for the record.

APPENDIX

Social Security is this nation's largest and most important domestic program. It provides monthly benefits to over 36 million people. About one out of every seven Americans collects some type of Social Security benefit. These benefits will total over $200 billion during 1983—about one-quarter of the entire federal budget. Social Security is a "pay-as-you-go" system, where current workers pay taxes to support current benefits. It is financed through payroll taxes on workers and their employers and on the self-employed. Currently, about 116 million workers pay Social Security taxes which are matched by their employers.

The business community is a supporter and defender of the basic principles Social Security was founded on—that is, the program should be a floor of protection on which an individual and his employer can build. Benefits should be paid as an earned right and not based on financial need. Finally, the costs of this self-supported program should be shared equally by workers and employers.

THE PROBLEM

The intense publicity the financial difficulties of Social Security has received over the past two years has put the question squarely before the public: can we afford the Social Security system we have created? A careful examination of the financial projections for Social Security in the short-term, long-term and in the area of Medicare financing clearly indicates that we cannot.

In the near term, the nation is now aware of the fact that, unless action is taken, the Old-Age and Survivors Insurance Fund (OASI), the largest of the three payroll tax financed Social Security Trust Funds, will be unable to make timely retirement and survivor benefit payments beginning in July of this year.

For the past several years, OASI has been spending far more than it has been taking in. (See Table 1) During these years the program has had to rely on reserves built up over a period of years in order to meet its monthly benefit obligations.

TABLE 1.—OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 1977-81

[In billions]

	Income	Expenditures	Net income [1]
Year:			
1977	$72.4	$75.3	−$2.9
1978	78.1	83.1	−5.0
1979	90.3	93.1	−2.8
1980	105.8	107.7	−1.9
1981	125.4	126.7	−1.3

[1] The shortages are met by drawing down Trust Fund reserves.

Source: Social Security Administration.

The past several years have been hard on the Social Security program and the projections for the next decade are no better. (See Table 2)

TABLE 2.—COMPARISON OF INCOME (EXCLUDING INTEREST) AND OUTGO

[In billions]

	Alternative III estimate						OASDI, net income
	OASI			DI			
	Income	Outgo	Net income	Income	Outgo	Net income	
Calendar year:							
1982	$124.9	141.9	−$17.1	$22.2	$18.1	+$4.1	−$13.0
1983	134.5	157.7	−23.2	24.3	19.1	+5.2	−18.0
1984	147.3	177.2	−29.9	26.6	20.3	+6.3	−23.6
1985	170.1	199.8	−29.7	33.9	22.2	+11.7	−18.0
1986	188.8	224.0	−35.2	37.8	24.3	+13.5	−21.7
1987	208.3	250.2	−41.9	41.8	26.5	+15.3	−26.6
1988	229.5	277.7	−48.2	46.0	28.9	+17.1	−31.1
1989	252.0	306.8	−54.8	50.5	31.6	+18.9	−35.9
1990	294.6	337.5	−42.9	63.4	34.4	+29.0	−13.9

Source: National Commission on Social Security Reform.

Compounding the problems, long-term projections are even worse. Although estimates vary, all agree that benefits, as now structured, will exceed payroll tax collections over the next 75 years. The 1982 Trustees report estimates that the combined average deficit for the Old Age and Disability Insurance trust funds may average 1.82 percent of payroll. In other words, the average payroll tax rate would have to be 1.82 percent more than is now scheduled by law. (See Table 3) That rate increase equals about $1.6 trillion in additional revenues needed to fund the program in the future.

TABLE 3.—SOCIAL SECURITY BOARD OF TRUSTEES ESTIMATES OF OASDI DEFICITS

	Average scheduled tax rates [1]	Average estimated expenditures [1]	Difference
25-year estimate	12.01	11.37	+0.64
50-year estimate	12.40	14.08	−1.68
75-year estimate	12.40	16.81	−4.41
75-year average			−1.82

[1] Excludes Medicare tax and Medicare expenditures.

Source: 1982 Trustees Report.

These estimates do not, however, fully represent the funding problems of the Social Security program. It is widely predicted that, between the short-term and longer-term problems, there are twenty to thirty years where large scheduled tax increases combine with a temporary period of more favorable demographic conditions to create large surpluses in the program. These projections would be reasonable if it were not for the tremendous funding problems awaiting the Medicare program—the third of the three payroll tax-financed Social Security trust funds—beginning as early as the late 1980's.

As the administrators of that program warned Congress in their 1982 Trustees Report:

"Although the Hospital Insurance Trust Fund is not in immediate danger of being unable to provide benefits which become payable, the present financing schedule is not adequate to ensure the payment of benefits even through the remainder of this decade. Disbursements exceed income in the near future leading to complete exhaustion of the fund in the latter half of the 1980's. The interfund loan to the Old-Age and Survivors Insurance Trust Fund will not be repaid in time to delay the time of exhaustion of the Hospital Insurance Trust Fund, thus further weakening the financial status of that Fund. In order to bring the hospital insurance program into close actuarial balance, either disbursements of the program will have to be reduced or financing increased by more than one-third."

That report goes on to warn that, averaged over the next twenty-five years, Medicare expenditures could exceed income by 3.73 percent of taxable payroll. (See Table 4)

TABLE 4.—ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

[Average for the 25-year period 1982–2006, expressed as a percent of taxable payroll]

	Alternative			
	I	II–A	II–B	III
Average contribution rate, scheduled under present law	2.86	2.86	2.86	2.86
Average cost of the program, for expenditures and for trust fund maintenance	3.72	4.49	4.93	6.59
Actuarial balance	−0.86	−1.63	−2.07	−3.73

Source: Hospital Insurance Trustees Report.

In the longer-term (over the next seventy-five years) the funding shortfalls for Medicare get worse. Estimates may vary about the severity of the long-term funding problems of the Medicare component of Social Security, but all agree that very serious deficits will occur soon and will continue to grow in severity year-by-year unless action is taken.

SOLUTIONS TO THE PROBLEM

There are only two ways to solve the deficit problems of Social Security. That is either fund those deficits by raising revenues or identify the reasons why program costs have been exceeding revenues and take appropriate action to reduce those costs.

RAISING REVENUES

There are three ways to raise Social Security revenues: increase the payroll tax, find alternative sources of revenues or increase the tax base by adding more taxpayers.

Raising Payroll Taxes.—In 1977, Congress attempted to solve the funding problems of Social Security by enacting what was, at that, time the largest peacetime tax increase in U.S. history. Those increases, which have yet to take full effect, did not solve the funding problem.

Social Security taxes have increased rapidly and are now at a level where further increase risk public resentment against the program itself.

In the first fifteen years of the program, the maximum tax increased by an average of only $1 a year, from $30 to $45 a year. Ten years later, in 1960, the maximum tax had tripled. Over the next 10 years, it almost tripled again. But in the last 10 years, the maximum grew sixfold and will continue this steady climb until all of the increases passed in 1977 have taken effect. That occurs in 1990 when the tax rate will rise to 15.3 percent of taxable payroll with the employer and the employee sharing equally in that burden.

In addition to the scheduled rate increases, the maximum amount of earnings taxable is indexed to increases in average earnings for all employees nationwide. In other words, more earnings are subject to Social Security taxes every year. By 1990, the maximum tax for an individual employee could be about $4,600, plus a matching contribution by the employer.

This rapid escalation of payroll taxes has had a devastating impact on small business and individual workers. Between 1950 and 1980, the Social Security tax paid by the average worker has increased over 2,000 percent while that same worker's wages have increased only 490 percent. Moreover, today many workers pay more in Social Security taxes than they do in federal income taxes.

Social Security taxes are creating havoc for business too, especially small business. Not only has business been subject to the same rate of increases in payroll taxes as individuals; tax deposit requirements have been speeded up to require employers to make Social Security tax deposits within three days of the date wages are paid.

This speedup of deposits, in conjunction with the increased amount of payroll taxes, has severely affected the cash flow of many small businesses. For large employers, the problem is amplified by the large sums of capital tied up in payroll deposits.

Infusing General Revenues.—Another option to alleviate the Social Security shortfall is to de-emphasize the system's self-supported financing.

Congress could infuse general revenues into Social Security through loans, direct subsidies or other, more indirect, methods. This option, while politically less painful than raising taxes, would not be in the best interests of Social Security or the nation.

Many arguments can be made against funding the system with general revenues. Foremost is the contention that most workers preceive their benefits as a right earned by their payroll tax contributions. They do not regard Social Security as welfare, which accounts for the great popularity of the system. Large government contributions would weaken this preception and the system's acceptability.

General revenue financing also would compromise the "fiscal brake" that is inherent in a self-supporting program. It is a fact that the present financing mechanism provides for a close tie between new benefit liberalizations and additional taxes to pay for them. General revenue financing would destroy this restraining feature and increase the tendency of some members of Congress to overextend Social Security by enacting unrealistic new benefits.

Compounding this overexpansion would be the tendency to "means-test" benefits, that is, to use the Social Security program to aid the elderly poor by providing for much greater weighting of benefits than now exists. This too, would destory the earned-right concept of Social Security.

Moreover, this question must be asked: With recent deficits at record levels, what general revenues would be used?

An infusion of general revenues to meet a Social Security deficit would be nothing more than substituting one deficit for another. It would have the effect of increasing public debt and, thus, interest rates and inflation.

Universal Coverage.—It is necessary to mandate coverage of all federal employees and those state and local government and non-profit organization employees not now participating in Social Security. This step would provide significant revenues to the trust funds at a time when they are desperately needed to avoid insolvency. It would also be beneficial in the long term. Moreover, it would end the resentment now felt by workers who see an elite minority of the population not fully aiding in the support of the nation's elderly, widowed, orphaned and disabled through the Social Security program.

Ninety percent of the American workforce is covered by Social Security, but about 7,000,000 workers, mostly federal, state and local government employees, are not. Nonetheless, about 80 percent of the uncovered employees finally qualify for Social Security benefits as a result of working in covered employment at some time in their career or qualifying as a dependent. As a rule, such employees obtain benefits which are about two-thirds of the amount they would have earned if their full career had been in covered employment. Yet, on the average, they pay less than one-third of what career-long covered employees pay into the program.

If mandatory universal coverage were effective January 1984, over $100 billion in additional revenues could be expected by 1989. That sum would not be raised by raiding the retirement trust funds for federal, state and local government employees. Those funds belong to these employees and must be used exclusively to pay promised pensions to both present and future beneficiaries. We do not propose using those funds for Social Security. We do propose, however, that all working Americans have Social Security as their base line pension. Employer-provided pensions, where available, should be supplemental to, and integrated with, Social Security just as they are now by the majority of private and public sector pensions.

REDUCING COSTS

The final and, actually only option available to Congress is to reduce future Social Security costs. The current Social Security program is much more expensive than its architects ever intended.

The system was originally designed to do nothing more than provide protection for the elderly. In fact, when President Franklin Roosevelt signed the Social Security Act into law on August 14, 1935, he stated:

"Today a hope of many years standing is in large part fulfilled * * * we have tried to frame a law that will give some measure of protection to the average citizen and to his family against poverty ridden old age."

However, the program has developed into one far from that original concept. The great prosperity of the 1950s and 1960s led to surpluses in the Social Security trust funds and Congress expanded and liberalized the program.

Insufficient consideration was given to the future funding of those liberalizations. In six of the last seven years, Social Security's costs have exceeded revenues. In 1950, the program provided benefits for 2.5 million people at a cost of $522 million, representing 1 percent of all federal expenditures. This year, over 36 million Americans will receive benefits, amounting to about $200 billion, equal to 25 percent of the federal budget. By 1986, benefits are expected to exceed $300 billion annually.

Social Security's rate of growth can be measured further by noting that program costs, in recent years, have been almost doubling every five years—from $37 billion in 1970, to $78 billion in 1975, and to $154 billion in 1980.

It has become obvious that, if this trend continues, Americans no longer will be able to afford Social Security.

The National Commission's Recommendation.—On December 16, 1981 President Reagan announced the appointment of the National Commission on Social Security Reform. The goal of the Commission was "to work with the President and the Congress to reach two specific goals: propose realistic, long-term reforms to put Social Security back on a sound financial footing; and forge a working bipartisan consensus so that the necessary reforms will be passed into law."

On January 15, 1983, the bipartisan Commission issued its recommendations. Those recommendations would attempt to solve the funding problem of the Old-Aged and Survivors Insurance (OASI) and the Disability Insurance (DI) Trust Funds through a combination of program reforms. The Commission decided not to address the Medicare funding problems but instead to leave its resolution to the 1982 Advisory Council on Social Security, which is expected to issue its report by July 1, 1983. The Commission recommended changes in the areas of expanding coverage, modifying benefit growth and increasing taxes. The Commission's recommendations follow:

FINANCIAL STATUS

For the short-term (1983–89), $150–200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds.

For the long-term, an actuarial imbalance for the 75-year valuation period averaging 1.80 percent of taxable payroll exists for OASDI.

COVERAGE

As of 1/1/84 cover all non-profit employees.

As of 1/1/84 cover newly hired federal employees.

Ban withdrawal by state and local governments now under the system.

Eliminate "windfall" benefits for persons with pensions from non-covered employment effective for those first eligible to retire after 1983.

BENEFITS

Delay the automatic increase in benefits (COLA) for six months (January instead of July) and make all future increases payable on a calendar year basis.

Beginning in 1988, stabilize the program by providing that when trust fund reserves fall below 20 percent of annual outgo, the cost-of-living adjustment (COLA) would be calculated by using the lesser of average wage increases or the Consumer Price Index increases until reserves return to 20 percent. When reserves reach 32 percent additional benefits would be paid making up for any previous payments that were less than CPI.

Various proposals designed to lessen the perceived inequities in the treatment of women under Social Security.

TAXES

Increase the tax rate for the years 1984, 1988 and 1989 by advancing scheduled tax rate increases as follows:

[In percent]

	Present law	Proposed
Year:		
1983	6.7	6.7
1984	6.7	7.0
1985	7.05	7.05
1986	7.15	7.15
1987	7.15	7.15
1988–89	7.15	7.51
1990 and after	7.65	7.65

Provide a refundable tax credit to employees for the year 1984 for the part of the employee rate which has been increased.

Tax one-half of the Social Security benefit of beneficiaries with adjusted gross incomes (excluding Social Security) above $20,000 if single and $25,000 if married filing joint return. The proceeds would be returned to Social Security.

Make the self-employment tax rate (currently 75 percent of the combined employer/employee rate) comparable to the full rate and allow a business deduction (currently not allowed) for one-half of the total tax.

Apply Social Security taxes to salary reduction pension plans qualified under Section 401(K) of the Internal Revenue Code.

MISCELLANEOUS

Reallocate tax rates between OASI and DI trust funds.

Extend interfund borrowing for 1983–87.

Make lump-sum payment from the general fund to the Social Security trust funds for military wage credits and the value of uncashed checks.

Increase the delayed retirement credit (currently 3 percent to 8 percent over the period 1990–2010.

Improve the investment procedures for Social Security trust funds.

Add two public members to the Board of Trustees of the Social Security Trust Fund.

Remove Social Security from the unified federal budget.

Study the feasibility of making the Social Security Administration a separate, independent agency.

The financed impact of all the Commission's recommendations are shown in Table 5.

In addition, the Commission recommended that a "fail-safe" mechanism be incorporated into Social Security so that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little notice. The Commission could not agree, however, on the form that fail-safe mechanism should take.

Furthermore, the Commission acknowledged that its recommendations did not fully solve the long-term funding problems of OASDI. On the issue of closing this gap, the Commission agreed to disagree. A majority stated that the long-term funding gap should be closed through raising the retirement age, with a minority advocating a future payroll tax increase.

TABLE 5.—SHORT-RANGE AND LONG-RANGE COST ANALYSIS OF OASDI PROPOSALS BY THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Proposal	Short-term savings, 1983–89 (billions)	Long-range savings (percentage of payroll)
Cover nonprofit and new Federal employees [1]	+$20	+0.30
Prohibit withdrawal of State and local government employees	+3	
Taxation of benefits for higher-income persons	+30	+.60
Shift COLA's to calendar-year basis	+40	+.27
Eliminate windfall benefits for persons with pensions from noncovered employment	+.2	+.01
Continue benefits on remarriage for divorced widow(er)s and for divorced widow(er)s	−.1	
Index deferred widow(er)'s benefits based on wages (instead of CPI)	−.2	−.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	−.1	−.01
Increase benefit rate for disabled widow(er)s aged 50–59 to 71½ percent of primary benefit	−1	−.01
Revise tax-rate schedule	+40	+.02
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASI and DI		
Allow inter-fund borrowing from HI by OASDI		
Credit the OASDI Trust Funds, by a lump-sum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	
Base automatic benefit increases on lower of CPI or wage increases after 1987 if fund ratio is under 20 percent, with catch-up if fund ratio exceeds 32 percent		
Increase delayed retirement credit from 3 percent per year to 8 percent, beginning in 1990 and reaching 8 percent in 2010		[2] −.10
Additional long-range changes [3]		−.58
Total effect	+168	+1.80

[1] Includes effect of revised tax schedule.

[2] This cost estimate assumes that retirement patterns would be only slightly affected by this change. If this change does result in significant changes in retirement behavior over time, the cost increase would be less (or possibly even a small savings could result).

[3] Alternate methods for obtaining this long-range savings are presented in the additional statements of the members (in chapter 4).

Note: See text for complete description of the proposals.

Mr. MATSUI. Thank you, Mr. Thompson.

Mr. Thomas, question?

Mr. THOMAS. Mr. Lantry, I would hope that the constitutional arguments are sufficient with regard to the States that your appearance here is a cautionary one.

Mr. LANTRY. That is true.

Mr. THOMAS. You have dealt with this before and therefore know that you should come rather than not.

Mr. Kiernan, in your testimony you indicate that you are concerned about the Federal retirement system and future retirees from Federal service when the number of members diminishes to the point where outgo exceeds income in the retirement system.

I want you to know that I have sat here day after day and listened to testimony and the professional testimony is that your concern really need not bother you because a long time ago the amount that the employees paid into the civil service system did not match what was paid out.

In fact, three out of every four dollars that are paid out come from the general fund, not from the moneys paid in by those people who are paying into their retirement program.

So your concern really is not one that should bother you because over the decade of the seventies the Government pay-in ratio to the employee pay-in ratio was 298 percent and all we have to do is find an additional 20 percent or that amount currently paid in by employees to make sure that the future retirees are covered even if we cut it off tomorrow.

Mr. **KIERNAN**. Just an answer for that, Mr. Thomas—there is nothing that I see projected that says that the Federal Government is going to be excused from paying their portion of the social security contribution for each of their members as well as the portion that would normally apply toward the retirement system, whatever that amount may be.

So what we are saying to the Federal Government is that you are going to assume an additional burden of 7 percent of the employee's salary to be paid in to maintain his Social Security position as well as continuing in the supplemental system, and again here I come back to what I said before.

We don't know what that supplemental system is going to be but I have to assume that there is going to be a percentage basis of contribution in there matched by the Federal Government.

So they are doubling their contribution into the two plans rather than maintaining their contribution into one single plan which has been established in the past and which, as you way, when there were shortfalls, was covered by the Federal Government.

But now they are going to be called upon to cover it both ways.

Mr. **THOMAS**. There continues to be an ever increasing rate and the 7 percent that the Federal employees pay in does not cover the outgo.

I understand your concern about not having a plan in hand for the supplemental aspect but the main point I want to get across, because we have heard it from a number of individuals, is basically the charge that we are creating one deficit system to save another or throwing good money after bad?

To assume that the civil service retirement system is somehow a good one and is solvent and if we stop that and move people who would go into that program into another program that is necessarily worse is a myth. That is the only thing I want to establish and if we have some agreement there, we have problems and the problems are not just in the social security system. They extend also to the civil service system because it is not throwing good money after bad since virtually 80 cents of every dollar is coming out of the general fund under the civil service program anyway.

Mr. **KIERNAN**. I would think if I just add on to that, sir, is that our big concern is not only that factor, but the factor that each of our members is going to be called upon to double his loss of take-home pay because of being mandated into that system.

I don't think I have to explain to you people that an additional 7 percent loss of take home pay in this economy today is traumatic.

Mr. **THOMAS**. I understand that loss of take home pay, but the assumption that the 7 percent that is currently paid in provides them with the benefits that they get is another myth.

It is coming from somewhere and if it is not out of the pocket of the Government employee, it is coming out of the general fund from other taxpayers.

That is the point I want to emphasize. Perhaps the 14 percent paid out would then be a much better pay as you go system.

Thank you.

Thank you, Mr. Chairman.

Mr. **Shannon** [presiding]. I guess we have no further questions. I thank the panel.

The next panel is Mrs. Lou Glasse from the New York State Office of the Aging; Dr. Mahoney from the Commonwealth of Massachusetts; Dr. Kugler for Workmen's Circle; Ms. de Armas, Citywide Hispanic Senior Action Council; Mr. Jack Sheinkman, Social Security Commission, and Mr. Charles Leggette, Leggette & Co.

You may begin.

STATEMENT OF LOU GLASSE, DIRECTOR, NEW YORK STATE OFFICE FOR THE AGING

Mrs. **Glasse**. Mr. Chairman, you have in front of you my entire testimony but I will simply be giving highlights.

You also have a report that was issued by our State last year.

The historic deliberations of the National Commission on Social Security Reform certainly represent one of the great public policy debates in our time.

We in New York are particularly proud of contributions made by two distinguished New Yorkers, Representative Barber Conable, a member of this committee, and New York Senior Senator Daniel Patrick Moynihan.

The work of the Commission reaffirms this Nation's commitment to a comprehensive program of social insurance designed to protect persons of all ages.

This has always been our highest priority and I am pleased to report that New York State strongly supports the Commission's recommendations.

I especially favor certain parts of the Commission's package which I have enumerated in number, but again I will highlight only a few. These include:

Acknowledgement that social security has two distinct problems which is the focus of the consensus recommendations to solve the short-term problem first. With respect to the long-range problem, it is critical to avoid haste in seeking solutions.

As you know, Mr. Chairman, we cannot even be sure of what the economy will be like next year, let alone in 50 years. We should not make changes based on the unknown.

Agreement that there should be no change in basic retirement benefits including the age of retirement, giving tax credits to protect employees from having to pay accelerated payroll taxes in 1984, changes involving the improvement of some benefits which primarily affect women, recommending broadening the representation and number of trustees, removing social security from the unified budget, and improving the investment policy for the trust fund reserves are especially noteworthy.

These latter two proposals will reduce the fear that the trust funds may be used for Federal budget expediency and political opportunism. The fairness of the Commission's recommendations is that contributions will be required from everyone. The most significant effect of the Commission's recommendations may be the sense of relief the elderly and their families will have in knowing that the social security system will remain essentially intact and that the checks will continue to arrive on time.

While it is clear that the COLA delay is a necessary part of this compromise, we must recognize that this delay will require greater sacrifices by some older persons. Contrary to popular understanding, the delay will result in a loss of approximately 50 percent of the increase from the COLA each year into the future.

Our estimates show that the average loss for a beneficiary in New York State will be $1,183 between 1983 and 1989 and I call your attention to one of the charts in the back of the testimony.

Over 380,000 New York elderly and 4.7 million elderly nationwide are living on the brink of what we define as poverty. To these individuals the loss of $170 a year has staggering implications in the light of past, present, and proposed reductions in other Federal benefits. It is out of a sincere wish to preserve the integrity of the Commission's recommendations that we strongly urge Congress to focus on the implementation of those other proposed reductions for our elderly population. Clearly, millions of elderly are not in a position to withstand further budget assaults, especially in the area of health care, which is so critical to their well-being.

The medicare program is facing financial problems due to the rising cost of health care. The President has proposed to deal with this problem not by restraining rampant inflation in the health care industry, but by shifting costs to the elderly. We have already seen a rise in hospital insurance deductible from $204 to $304 a year since 1981. The administration's proposals would raise the deductible to $350 a year in 1984, making a total increase of 72 percent since the President took office.

Let us not have the loss of medicare benefits become tomorrow's fear for the elderly.

I call your attention also to a table in the back which gives a case study illustrating the rapid rise of health care and other costs in relation to income of older persons living on an average social security benefit. It shows that other people would have 8 percent less income for other items in 1984 than in 1980, if the COLA delay goes into effect.

We recognize we are facing difficult times. Choices must be made about how to allocate our resources. The distribution of reductions in social security, health, in any area must be done in a fair manner.

All must give a little. As I stated in my opening remarks the Commission's compromise is fair on its merits and the elderly are bearing their share. We urge that Congress carefully consider other budget proposals placed before them this year so that these proposals can result in fair and equitable legislation.

If we look at cuts of the last few years and at the income and expenditure needs of older people, we realize that we cannot expect the elderly to give more than they already have, indeed for many they have no more to give.

Thank you.

[The prepared statement follows:]

STATEMENT OF LOU GLASSE, DIRECTOR, NEW YORK STATE OFFICE FOR THE AGING

The historic deliberations of the National Commission on Social Security Reform surely represent one of the great public policy debates in our time. Throughout the difficult process leading to the Commission's final report in January, it became increasingly clear that now, perhaps more than ever, each American citizen needs Social Security and all of us must be prepared to contribute to the solvency of this most important system.

I therefore commend the President for his initiative in appointing the Commission and especially applaud the wisdom and leadership evidenced by Commission members during debate. We in New York are particularly proud of contributions made by two distinguished New Yorkers, Representative Conable, a member of this Committee and New York's senior Senator, Daniel Patrick Moynihan.

The Commission's recommendation to not alter the fundamental structure of the Social Security program or undermine its fundamental principles is the cornerstone of its achievement. The work of the Commission reaffirms this nation's commitment to a comprehensive program of social insurance designed to protect persons of all ages against the vicissitudes of life. This has always been our highest priority and I am pleased to state that New York State strongly supports the Commission's recommendations.

In the Spring of 1981 a special New York State Interagency Task Force on Social Security, which I chaired as Director of the State Office for the Aging, was created. The Task Force analyzed the system's financial problems, reviewed the major reform proposals put forth at that time, examined the impact of Social Security benefit reductions on private and public pension systems and on state and local government and made recommendations to address short range and long-range financing problems, including those of Medicare. I have provided each of you with a copy of the final report issued in July, 1981, entitled "Keeping Social Security Strong."

Many of the Commission's recommendations are consistent with those made in the New York State Report. I especially favor certain parts of the Commission's package which are designed to safeguard the values of the current system and which initiate some needed reform, including:

Acknowledgement that Social Security has two distinct problems and the focus of the consensus recommendations to solve the short term problem first. With respect to the long range problem, it is critical to avoid haste in seeking solutions. As you know, Mr. Chairman, we cannot even be sure of what the economy will be like next year, let alone in fifty years. We should not make changes based on the unknown.

Agreement that there should be no change in basic retirement benefits, including the age of retirement.

Providing older workers with incentives for continued employment through the increase in the delayed retirement credit. Currently, after age 65, increases in benefits for delayed retirement are so small that they actually provide a disincentive for continued employment.

The reasoned approach to increasing taxes, as well as appropriate reimbursement from general revenues for uncashed checks and military credits.

Giving tax credits to protect employees from having to pay accelerated payroll taxes in 1984. This measure will help ease the concern that younger families may have to suffer because of the contributions they are being asked to make to retirees.

Changes involving the improvement of some benefits which primarily affect women. These changes are especially noteworthy in that they correct a basic inequity in the system, long overdue for reform.

Moving towards universal coverage by including nonprofit organizations and new federal workers.

Recommending broadening the representation and number of trustees.

Removing Social Security from the unified budget and improving the investment policy for the trust fund reserves.

These latter two proposals will reduce the fear that the Trust Funds may be used for federal budget expediency and political opportunism.

It is of course in the nature of compromise that not all will be pleased. But the strength of the Social Security system has been preserved and Americans, both present and future beneficiaries, should be reassured.

The fairness of the Commission's recommendations is that contributions will be required from everyone. All beneficiaries will contribute more as a result of the proposed cost of living adjustment. Higher income beneficiaries will provide additional support through increased income taxes. Employees and employers will pay higher payroll taxes.

The self-employed will pay taxes at the same rate as is paid for other workers. Nonprofit and new federal employees will be covered by Social Security and thus will be called upon for contributions. The U.S. Treasury will pay the Social Security trust funds for uncashed checks and military credits. (See Charts 1 and 2)

All factors considered, we believe the Commission's recommendations will achieve our most important objective—preserving the system itself—without imposing excessive burdens on any individual or group.

EFFECT ON THE ELDERLY

The most significant effect of the Commission's recommendations may be the sense of relief the elderly and their families will have in knowing that the Social Security System will remain essentially intact and that the checks will continue to arrive on time. As noted above, the elderly are being asked to make important contributions in helping to stabilize the system.

First is the proposal for taxing of benefits.

The Governor's Advisory Committee to the New York State Office for the Aging, a committee of older New Yorkers from many segments of the older population, has reviewed the commission's proposals and believes that taxation of benefits is a reasonable approach. All Americans have a responsibility to contribute to the stability of the Social Security system, and those Americans with higher incomes, regardless of their age, can and should make a greater contribution.

However, the Governor's Committee believes that to maintain the intent of the Commission to restrict taxability of benefits to higher income beneficiaries, Congress should index the income limits just as income tax brackets will be indexed beginning in 1985. This concern of the Committee grew out of the experience over the federal government's decision to tax unemployment insurance benefits. In that case income levels were set at $20,000 and $25,000 and later reduced to the current levels of $12,000 for a single person and $18,000 for a couple. If these taxation floors were reduced for Social Security, many older persons who are now independent and contributing members of their communities would be adversely affected.

The second proposed contribution by the elderly involves a six month delay in the Cost of Living Adjustment.

While all of us must be prepared to contribute to the stability of the system, we must emphasize that some are less able to do so. The Commission has recognized this in proposing to protect Social Security recipients who receive SSI against losses resulting from the COLA delay.

The proposal to delay the COLA six months is the part of the Social Security compromise which raises the greatest concern among older people. While it is clear that the COLA delay is a necessary part of this compromise, we must recognize that this delay will require greater sacrifices by some older people.

The delay will result in a loss of approximately 50 percent of the increase from the COLA each year. Our estimates show that the average loss for a beneficiary in New York State will be $1,183 between 1983 and 1989. (See charts)

Over 380,000 New York elderly and 4.7 million elderly nationwide are living on the brink of what we define as poverty. For these individuals the loss of $170 a year has staggering implications in the light of past, present and proposed reductions in other federal benefits.

It is out of a sincere wish to preserve the intergity of the Commission's recommendations that we strongly urge Congress to focus on the implementation of those other proposed reductions for our elderly population.

The elderly with whom I've spoken want to do their share in resolving the problem but they must be protected.

It is important to remind ourselves of the income status of the elderly and Social Security beneficiaries:

One-quarter of beneficiaries, some 700,000 New Yorkers, have no income other than their Social Security checks. For two-thirds of beneficiaries, Social Security benefits are more than half of their income.

The average monthly check for an adult on Social Security is only $386. That is $4,637 per year or less than the current poverty threshold of (of $4,680) for a one person family.

More than 80 percent of elderly persons (in 1980) have incomes of less than $10,000 per year.

Poverty among the elderly has increased in recent years. In 1978 the poverty rate fell to 14.0 percent, yet by 1981 it had risen to 15.3 percent.

Clearly these elderly are not in a position to withstand further budget assaults, especially in the area of health care which is so critical to their well being.

The Medicare Program is facing financial problems due to the rising cost of health care. The President has proposed to deal with this problem not by restraining rampant inflation in the health care industry, but by shifting costs. Much of these costs would be shifted to the elderly.

Also alarming is the Administration's proposal to charge the elderly for part of the cost of the 2nd through the 60th day of an acute care hospital stay, in exchange for castastrophic coverage—a provision the vast majority of older people will never benefit from. Under this proposal the cost to Medicare beneficiaries in New York State would increase by $71 million. We have already seen a rise in the Hospital Insurance deductible from $204 to $304 a year since 1981. The proposal would raise the deductible to $350 a year in 1984—making a total increase of 72 percent since the President took office. In addition, the average added cost to a Medicare beneficiary for Hospital Co.-Insurance would be $280 (for an average hospital stay, 10 days in New York State).

With the Commission's work we are finally removing today's fear surrounding the solvency of the Social Security Retirement System. Let us not have the loss of Medicare benefits become tomorrow's fear for the elderly.

I have briefly discussed proposed reductions in Medicare. Add to this the proposed reductions in Weatherization, Energy Assistance, Food Stamps and Older Americans Act Programs—to mention a few—and we see that many elderly will be caught in the middle of a terrible economic dilemma.

CASE STUDY

Many elderly are already struggling as prices for certain critical items cause their expenditures to rise faster than their incomes.

Consider the example of an older person who must rely on an average Social Security benefit for sole source of income and is faced with a hospital stay of average length for an older person.

Let us assume that this person is heating with natural gas, as do half of New York State's elderly. Looking at what has happened to this person from 1980 through 1983 and including what we expect to happen in 1984, we find that after paying for health care and heating costs the amount of money this individual has left to spend on everything else (food, housing, transportation, clothing, electricity, etc.) will decrease by 8 percent. Between 1982 and 1984 alone, we find that the amount left for everything else will dramatically decrease by more than 22 percent. (Table 3)

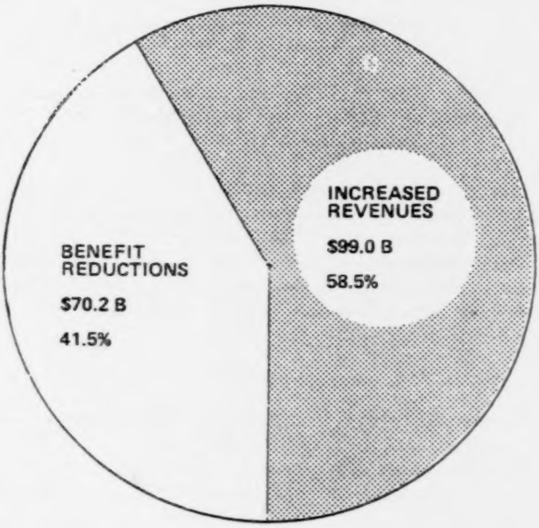
We recognize that we are facing difficult times. Hard choices must be made about how to allocate our resources. The distribution of reductions in Social Security, in health, in any area must be done in a fair manner. All must give a little. As maintained in my opening statement, the Commission's compromise is fair on its own merits and the elderly are bearing their share.

We urge that Congress extend this fairness to other budget proposals placed before them this year.

If we look at cuts of the last few years and at the income and expenditure needs of older people, we realize that we can not expect the elderly to give more than they already have. Indeed, for many, they have no more to give. Thank you.

Chart 1

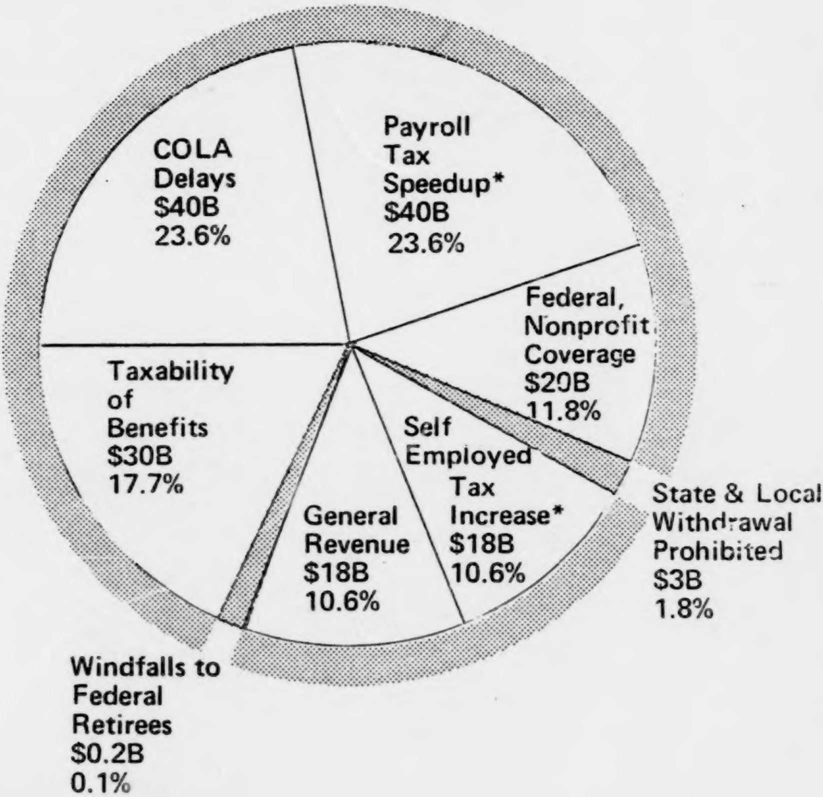
DISTRIBUTION OF 1983 – 1989 COST SAVINGS
in Proposals of National Commission on Social Security Reform



Source: New York State Office for the Aging

Chart 2.

DISTRIBUTION OF 1983 – 1989 COST SAVINGS
in Proposals of National Commission on Social Security Reform



*Part of cost reimbursed from general revenues through tax credit for employees in 1984 and deduction as business expense for self employed.
Source: New York State Office for the Aging

TABLE 1.—IMPACT OF SHIFTING SOCIAL SECURITY COLA FROM JULY TO JANUARY FOR HYPOTHETICAL SOCIAL SECURITY MONTHLY BENEFIT OF $100, 1983–89 (INCLUDING CONSTANT INFLATION OF 5 PERCENT)

	Monthly benefit				Annual benefit increase from COLA			
	January-June		July-December		Current law	Proposal	Loss from current law	
	Current law	Proposal	Current law	Proposal			Amount	Percentage
1983	$100.00	$100.00	$105.00	$100.00	$30.00		$30.00	100
1984	105.00	105.00	110.25	105.00	63.00	$31.50	31.50	50
1985	110.25	110.25	115.76	110.25	66.12	33.06	33.06	50
1986	115.76	115.76	121.55	115.76	69.48	34.74	34.74	50
1987	121.55	121.55	127.63	121.55	72.96	36.48	36.48	50
1988	127.63	127.63	134.01	127.63	76.56	38.28	38.28	50
1989	134.01	134.01	140.71	134.01	80.40	40.20	40.20	50
Total 1983–89					458.52	214.26	244.26	

Source: NYS Office for the Aging.

Table 2.—Distribution of Total Money Income of Persons Age 65 and Over, 1980

Income:	*Percent*
$1–1,999	7.6
2,000–2,999	12.9
3,000–3,999	14.5
4,000–4,999	12.7
5,000–5,999	8.5
6,000–6,999	7.3
7,000–8,499	8.2
8,500–9,999	6.2
10,000–14,999	11.0
15,000–19,999	4.5
20,000–29,999	3.5
30,000–49,999	1.5
50,000 and over	0.6
No money income	0.9
Under $4,000	35.9
Under $5,000	48.6
Under $10,000	78.8
Under $15,000	89.8

Source: U.S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States, 1980."

TABLE 3.—DIFFERENCE BETWEEN AVERAGE SOCIAL SECURITY INCOME AND SELECTIVE EXPENDITURES FOR A SOCIAL SECURITY BENEFICIARY HOSPITALIZED DURING YEAR, 1980–84

	1980	1981	1982	1983	1984 [1]
Income: Social Security Benefit	$3,634	$4,095	$4,472	$4,632	$4,860
Select expenditures: Heating (natural gas)	553	636	744	990	1,237
Medicare:					
Premium	110	124	139	146	170
Hospital					
Deductible	180	204	260	304	350
8 percent per day	NA	NA	NA	NA	280
Other out-of-pocket medical costs [2]	422	468	522	580	643
Difference:					
Dollar's for everything else [3]	2,369	2,663	2,807	2,612	2,180
Percent change from previous year		+12.4	+5.4	−6.9	−16.5

[1] Medicare expenditures for 1984 assume enactment of Reagan administration fiscal year 1984 medicare budget provision to charge beneficiaries 8 percent of the part A deductible for the 2d through 15th day of hospital care. Also assumes an average length hospital stay (11 days) is experienced.

[2] Includes Medicare Part B deductible and coinsurance; out-of-pocket medical costs are average for all elderly and are not adjusted for higher levels of cost than can be expected for those individuals who are hospitalized.

[3] Includes food, housing, transportation, clothing, electricity, etc.

NA—not applicable.

Source: New York State Office for the Aging.

Mr. **SHANNON**. Thank you very much, Mrs. Glasse.

Dr. Mahoney, before you begin, let me welcome you. It is a pleasure to see you and welcome you for the Commonwealth of Massachusetts and for the committee, and on the instruction of your Congressman, the Speaker of the House, let me welcome you.

STATEMENT OF DR. THOMAS H. D. MAHONEY, FORMER SECRETARY OF ELDER AFFAIRS, COMMONWEALTH OF MASSACHUSETTS

Dr. **MAHONEY**. Thank you very much.

As professor in history at the Massachusetts Institute of Technology, I would like to praise the conferees for the excellent plan that they have produced under very difficult circumstances. Their compromise plan is the product of bipartisan diplomacy in the highest tradition of good government and it should be accepted as it is; no more, no less.

Under the conferees' plan, I think the elderly fare well on the whole. The basic benefits are protected. The traditional structure of social security is intact. COLA will continue and, of course, while none of us is happy with the vision of benefits being taxed, the fact is that the old age trust has simply run out of money.

Seniors are then being asked to make a reasonable sacrifice to make the fund viable once again. If this gains us the reaffirmation of the sacred covenant that is social security and strengthens that great compact in which many of us joined hands over 40 years ago, we have fared well.

After all, one of the greatest strengths of the compromise is what was not included.

The medicare program, a very important component of social security, was left intact and, as you know, Mr. Chairman, medicare combines a basic benefit with monthly premiums, reasonable copayment and deductibles, a moderate use of general revenues and a clear encouragement for people to purchase supplemental insurance plans commonly known as medigap insurance.

I think the conferees very wisely chose to leave that stable program untouched. It is, in fact, a model of what social security should be, and was originally meant to be.

As the author of resolution No. 70, which was ratified by the 1981 White House Conference on Aging, as one of the two highest priorities, I am very happy to see that the comprehensive plan calls for a lump sum Treasury payment to the social security trust fund system to support the program that provides basic monthly payments to retirees, spouses and dependents.

Resolution No. 70, as I said, ratified by the 1981 White House Conference, was a compromise package calling for the use of general Treasury revenues to keep social security solvent and it encouraged the Congress to authorize general revenues to avoid major reductions or alterations in the benefit structure of the social security program.

Finally, it is very important, it seems to me, to note that the conferees elected to leave the traditional retirement age at 65. That was a statesmanlike settlement and in my humble opinion is not to be undermined. However, as I have long maintained on platforms all over this country, and even abroad, the Congress, in its wisdom, should give serious consideration to the abolition of mandatory retirement and permit those who are willing to work and able to work, the opportunity to do so, and end this patent discrimination against the Americas' oldest citizens who clearly have most beneficial results by further buttressing social security.

Thank you very much, Mr. Chairman, for the privilege of testifying.

Mr. SHANNON. Thank you, Dr. Mahoney.

Dr. Israel Kugler.

STATEMENT OF ISRAEL KUGLER, NATIONAL PRESIDENT, WORKMEN'S CIRCLE

Dr. KUGLER. My name is Israel Kugler, professor emeritus of the City University of New York, and the national president of the Workmen's Circle. The Workmen's Circle was founded in 1900 as the world's largest Jewish fraternal labor organization dedicated to social justice.

It was in the forefront of a long campaign to establish the social security system well before its creation in 1935. Its 55,000 members throughout the United States are committed to campaign for the preservation of social security. We are dedicated to the proposition that the social security system is a sacred social contract with the American people which must not have its benefits cut or weakened in any way for current recipients or future beneficiaries.

The security of our Nation rests not on military preparedness alone. The economic security and well-being of our citizens are even more fundamental for creating that national will to maintain our democratic way of life.

The Commission labored long and hard and it is a tribute to their persistence that they were able to fashion a compromise which has many positive features, but which satisfies no one completely whether on the Commission or most certainly in the broad mass of the populace, the 35-million recipients and the younger workers who, to my dismay, include some who do not think they will ever get social security benefits.

The Commission addressed itself to demographic projections that by a certain date more people will enter the labor market and thus pay more in taxes for social security.

The current mess that we face is based on a simple calculation. Fourteen million unemployed—which includes those discouraged workers who no longer actively seek work—times $15,000 average pay times 13.5 percent FICA represents a loss of $28.35 billion per year to the social security fund.

Even the rosy forecasts of the Reagan administration projects double digit unemployment through 1984. It seems to me that a job program to put America back to work is decidedly linked to a viable future for social security.

The compromise must be viewed against the last year's cuts in social security with an impact for the next 5 years of $23.8 billion, and the proposed cuts in social programs in the budget debate going on now for this year. In no way must this be permitted to happen.

Let us remember that 70 percent of the retired report that social security is their largest source of income and it is 79 percent of the poor that regard social security as their largest source of income. At least 15 million Americans are kept out of poverty by social security.

Now, let us consider some ways and means. The proposed increase in payroll taxation may be needed, but must be recognized for what it is, a continued regressive tax policy.

The wealthy, whose income exceeds the salary limits subject to taxation escape with much of their income untouched. Why should not the total payroll be subject to taxation for social security purposes and why should private employer contributions be recaptured by income tax deductions?

The deferral of COLA for 6 months is unconscionable in the face of the fact that two key costs, housing and medical care, continue to rise.

Is this fair when tax cuts have and will continue to be given in astronomical sums to the wealthy?

Why not limit tax cuts to a maximum of $750? These high bracket tax beneficiaries have in today's world done little to create jobs. In fact, they have exported jobs through conglomeration. They have taken assets away from the needed reindustrialization process in America and pushed it toward corporate mergers.

The social security system is one of our greatest national assets and we cannot shrink from backing its viability through general revenues.

J. Douglas Brown, chairman of the Social Security Advisory Council in 1937 and 1983 reminds us in a letter dated December 2, 1982, that way back in 1938 that Advisory Commission conceived of general revenue being necessary by 1962 and here we are in 1983.

And we know that all the major industrial countries of the world that have a social security system rely on general revenues.

Now, outside of the compromises, influential voices are advocating raising the social security eligibility age to 66. This is nothing more than a very serious benefit cut.

Well over 50 percent of elderly social security retirees do retire because of illness and disability and in the future of the computer revolution with more and more jobs lost to robotics——

Mr. **Shannon**. Dr. Kugler, you are running a red light there.

If you could summarize.

Dr. **Kugler**. I am almost finished.

What sense is there to swelling the ranks of unemployed?

Members of the Ways and Means Committee, look out there to the American people. Have the courage to fashion a social security plan which will cut no benefits for current as well as future recipients.

Play fair with the middle-income and poor people. Avoid taxing social security income. Use general revenues to the extent necessary to assure viability.

Provide an adequate job program so that our work force can pay into the social security system. Keep the faith.

Don't break the sacred social contract that social security represents.

I have here some petitions and they are coming in and increasingly in a floodlike manner and we will let you know what our membership thinks.

Thank you very much.

Mr. SHANNON. Thank you very much, Dr. Kugler.

[The prepared statement follows:]

STATEMENT OF DR. ISRAEL KUGLER, NATIONAL PRESIDENT OF THE WORKMEN'S CIRCLE

Chairman Rostenkowski and other Members of the House Ways and Means Committee: The Workmen's Circle is dedicated to the proposition that the Social Security System is a sacred social contract with the American people which must not have its benefits cut or weakened in any way for current recipients or future beneficiaries.

The security of our nation rests not on military preparedness alone. The economic security and well-being of our citizens are even more fundamental in creating that national will to maintain our democratic way of life.

The Commission labored long and hard and it's a tribute to their persistence that they were able to fashion a compromise which satisfies no one completely whether on the Commission or most certainly in the broad mass of the populace.

JOB PROGRAM AND UNEMPLOYMENT

The Commission addressed itself to demographic projections that by a certain date more people will enter the labor market and thus pay more in taxes for Social Security. The current mess is based on a simple calculation—14 million unemployed times $15,000 average pay times 13.5 percent F.I.C.A.—presents the Social Security Fund with a loss of $28.35 billion per annum. Even the rosy forecasts of the Administration project double digit unemployment through 1984. A job program to put America back to work is indissolubly linked to a viable future for Social Security.

CUTS IN BENEFITS

The compromise must be viewed against last year's cuts in Social Security ($23.8 billion for the next 5 years) and the proposed cuts in social programs this year. In no way must this be permitted to happen. Remember, 70 percent of the retired, report that Social Security is their largest source of income. For the poor it's 79 percent. Social Security keeps at least 15 million Americans out of poverty.

WAYS AND MEANS

The proposed increased payroll taxation is a continued regressive tax policy. The wealthy whose income exceeds the salary limits escape with income untouched. Why shouldn't the total payroll be subject to taxation?

The deferral of COLA for 6 months is unconscionable in the face of the fact that two key costs—housing and medical—continue to rise. Is this fair when tax cuts have and will continue to be given in astronomical sums to the wealthy? Why not limit tax cuts to a maximum of $750? These high bracket tax beneficiaries have in today's world done little to create jobs. In fact they have exported jobs through conglomeration. They have taken assets away from re-industrialization to corporate mergers.

The Social Security system is one of our greatest national assets and we cannot shrink from backing its viability through general revenues. J. Douglas Brown, Chairman of the Social Security Advisory Council in 1937-38 reminds us that the December 17, 1938 report conceived of general revenue being necessary by 1962.

Now, outside of the compromise, influential voices are advocating raising the Social Security eligibility age to 66. This is nothing more than a benefit cut. Well over 50 percent of early SS retirees do retire because of illness and disability. In the future of the computer revolution with more and more jobs lost to robotics and high technology what sense is there is swelling the ranks of the unemployed?

Members of the Ways and Means Committee! Look out there to the American people. Have the courage to fashion a Social Security plan which will cut no benefits for current as well as future recipients; play fair with the middle income and poor people; avoid taxing Social Security income; use general revenues to the extent necessary to assure viability; provide an adequate job program so that our work force can pay into the Social Security system. Keep the faith! Don't break the sacred social contract that our Social Security represents!

The Workmen's circle, founded in 1900, is the world's largest Jewish fraternal labor organization dedicated to social justice. It was in the forefront of a long campaign to establish the Social Security system well before its creation in 1935. Its 55,000 members throughout the U.S.A. are committed to campaign for the preservation of Social Security.

Mr. SHANNON. Ms. Drinane.

STATEMENT OF SULEIKA CABRERA DRINANE, EXECUTIVE DIRECTOR, INSTITUTE FOR THE PUERTO RICAN/HISPANIC ELDERLY

Ms. DRINANE. My name is Suleika Cabrera Drinane and I am the executive director of the Institute for the Puerto Rican/Hispanic Elderly.

I wish to thank the committee for allowing me to express the interests of Puerto Ricans and other Hispanic elderly of New York State, and its environs with regard to our concerns and recommendations about the National Commission on Social Security Reform.

While we understand the need for a bipartisan solution to the short- and long-term funding problems of the social security system, we are deeply troubled about the legislative process that has surrounded this complex issue.

We have been told by the present administration that social security has not been cut; but the reality is that it has, and, we fear that it will continue to be cut and undermined by opponents of this fundamental American social contract.

What we perceive is an ongoing process aimed at drastically changing the concept of this social program under the guise of bipartisan solutions.

The Hispanic elderly and other minorities feel that the process of cutting back social security benefits will not stop with this bipartisan compromise, but will continue.

For example, Senator Robert Dole, bill S. 76, has already introduced legislation to raise the retirement age.

For the Hispanic minority and really for all minorities, this is a very important issue since Hispanic life expectancy is lower than that of the general elderly population. That includes all blacks, native Americans and other minorities.

Therefore, we do not support any change in the retirement age. Additional recommendations of decreasing the benefits of those who retire prior to age 65 have already been discussed, and, of course, represent an inherent danger for our people, given their abbreviated life span.

What our elderly see is not a compromise that contributes to the solution of fiscal problems, but a continuation of a process that will eventually undermine the total system.

It is well documented that Hispanics in this country will die earlier, suffer more infirmities, earn less and exist at a lower standard of living than blacks and whites.

Three out of every seven elderly Hispanics in the United States are poor or near poor.

The elderly in general are more likely than the rest of the population to be hurt by inflation because they live on fixed incomes while the cost of health care, energy, housing, and food continues to rise uncontrollably.

However, for the Hispanic elderly the situation is even more critical. After a lifetime of poorly rewarded work, our elderly have lived with the hope of experiencing some equitable participation in their retirement years.

It now appears they are to be further penalized for getting old.

In our culture, the aged are honored, not dishonored. Honored people are respected. The budgetary cuts you wish to impose will mean disrepect in terms of ability to purchase nourishing foods, maintain a semblance of adequate housing and wear warm and comfortable clothing.

Often social security is discussed in terms of supplementary income as a supportive mechanism to other private sector pension plans, investment income, or other familial supports.

For our constituency, social security represents one and only one thing: Basic survival income, and nothing more.

May I remind this committee that the minimum benefit of $122 a month for new recipients has already been eliminated from the social contract for future retirees; that it is one of the worst things that has happened to our community; that social security benefits for college-bound students are now in the process of being phased out; that the death or burial benefits for a single person living alone has been dropped in favor of a potter's field option; that SSI benefits have been rounded out to the lowest dollar; and that disability benefits have been cut.

Present recipients are being harassed by a complex recertification process especially those applying for SSI and the disabled. The impact of this harassment is evidenced by a challenge in court to this process as reported in today's paper.

One must question the humaneness of these cuts when one considers that those most severly penalized are basically older, single women, often minority persons, that have not had in their lifetime the opportunity of education, paid work experiences or back-up life supports.

It is in light of this ongoing historical legislative process that we would like to address three issues of the social security compromise.

COLA DELAY OF 6 MONTHS

First, while some maintain that this does not represent a loss in benefits but rather only a delay, let that person explain an average of a $100 loss to a single minority person living alone in New York City in light of increasing food, health, energy and housing bills. That $100 can make the difference between eating or heating, the difference between being a self-reliant, marginally poor older person to being a recipient of SSI and medicaid.

This represents an ongoing cumulative effect that has grave implications for the elderly poor.

What guarantees do older Americans have that next year or the following year a 1-year delay will not be recommended in another bipartisan compromise to help balance the proposed deficits?

TAXATION OF BENEFITS

While we can share some justification for the taxation of benefits for upper bracket income levels where social security is often seen as pocket money, we again fear, as in unemployment benefits, a later reduction in income again to balance the budget.

We also feel that such a fundamental change in a social contract undermines the integrity of the program both for present recipients who have paid their dues and for future recipients who are now feeling intimidated and fear drastic changes in a basic social contract.

INCREASED FICA TAXES

At a time of the highest unemployment in decades, an increase in FICA taxes would be economically counterproductive both in relation to the recession and employment opportunities, especially for minority youth.

Also, such additional taxes further undermine the willingness of the younger generation to continue to support this crucial program.

Social security was, from its beginning, meant eventually to include general revenue use. Polls show that the American people support this. And yet you are not even discussing the use of general revenues to be used to fund part of social security, especially at a time when high unemployment contributes so heavily to the deficit. We also support the recommendations of the New York State Save our Security Coalition, of which we are part.

In closing, I am pleased to have been afforded this opportunity to bring before you some of the concerns of our constituency. There is a saying customarily rendered when wishing people well: "Salud, Dinero, y Amo y Tiempo para Gozarlo". Health, money, and love and the time to enjoy them. Pray that you will not deprive our elderly poor of any of these blessings either.

Thank you.

Mr. **Shannon**. Thank you very much, Ms. Drinane.

Ms. de Armas.

STATEMENT OF ENCARNACION PADILLA de ARMAS, CHAIRPERSON, HISPANIC SENIOR ACTION COUNCIL

Ms. **de Armas**. I got scared and I got to coughing.

Mr. **Shannon**. Take your time.

Ms. **de Armas**. My name is Encarnacion Padilla de Armas. I am the chairperson of the Hispanic Senior Action Council sponsored by the Institute for the Puerto Rican/Hispanic Elderly in New York City.

The Hispanic Senior Action Council represents elderly persons 60 and over from senior citizen centers as well as from New York State at large. We age very fast because we work very hard.

We are talking about a membership of over 1,200 Hispanic seniors committed to upgrading the socioeconomic status of our people in New York City.

Today I would like to serve as the voice of the many Puerto Rican and other Hispanic elderly in our city and State soliciting fair and equal treatment regarding benefits and supports from the social security system.

To attempt to rescue the social security system at the price of depriving the elderly Hispanic and other members of the little they already receive is not only ludicrous, but unsound and unnecessary. I refer not only to those seniors that go to the centers, but also to the senior citizens that stay in their homes and are alone. They are the ones that stand to suffer the most from the cuts in social security.

We would like very much to raise our voice and tell you that the Puerto Rican and the elderly citizens in New York are soliciting equal treatment.

I can prove it. I am a Puerto Rican and I have to contribute my work in the hardest situation, like here. It is a job.

We propose that before cutting and further eroding the benefits of social security that we address the basic problem of unemployment which is an important and integral factor in the plight of social security today.

Statistics indicate that every 1 percent increase in unemployment removes from social security's trust fund income $4 to $4.5 billion annually.

We also ask that before making the poor poorer that no proposed change should increase the number of persons below the poverty level; that there be no increase in the retirement age at which a person is eligible for either full or early retirement.

When we retire, we expect to live off social security because we did not have pension plans, and remember, we are old today. We are interested in what is happening in 1983 and we are not painting a beautiful picture for 1989 because we don't know if we are going to be there. This is our great problem.

I want to finish because the red light is coming up and to say that we want to have the right of a decent life. The poverty that especially the women are suffering, they are the widows, they were the homemakers, is immense. The men working the fields were the blacks and Hispanics, and we say things in Spanish very poetically. We say that with the perspiration or the sweat of their foreheads, they irrigate the soil of this earth in order to produce more, to live better, but we have retired to poverty and deprivation. Only our faith has kept us going.

Our men and our women are 40 and 50 years old; they look ancient and we need to retire at 60, not even 65, because not many of us are privileged to work until we are 76. So I thank you very much for listening to me and thank you for your time and I hope you do something.

Mr. **Shannon**. Thank you very much, Ms. de Armas.

[The prepared statement follows:]

STATEMENT OF ENCARNACION PADILLA DE ARMAS, CHAIRPERSON, HISPANIC SENIOR ACTION COUNCIL

My name is Encarnacion Padilla de Armas. I am Chairperson of the Hispanic Senior Action Council sponsored by the Institute for the Puerto Rican/Hispanic Elderly, New Youk City.

The Hispanic Senior Action Council represents elderly persons 60 and over from senior citizen centers as well as from New York State at large. We are talking about a membership of over 1,200 Hispanic seniors committed to upgrading the socio-economic status of our people in New York City.

Today, I would like to serve as the voice of the many Puerto Rican and other Hispanic elderly in our city and state; about soliciting fair and equal treatment regarding benefits and supports from the Social Security system.

To attempt to rescue the Social Security System at the price of depriving the elderly Hispanic and other members of the little they already receive is not only ludicrous but unsound and unnecessary.

We propose that before cutting and further eroding the benefits of Social Security that we address the basic problem of unemployment which is an important and integral factor in the plight of Social Security today. Statistics indicate that every one per cent increase in unemployment removes from Social Security's trust fund income 4-4½ billion dollars annually. We also ask that before making the poor poorer that no proposed change should increase the number of persons below the poverty level; that there be no increase in the retirement age at which a person is eligible for either full or early retirement. The Hispanic elderly who spent years working at home, or in low paying jobs, or as seasonal workers, workers with unreported earnings, or who were not covered by Social Security or who joined the Social Security system late must receive special protection at this crucial time of inflation.

We say that COLA should not be cut. Today the Consumer Price Index is the basis for the cost of living adjustment. The suggested change in the formala would result in a serious loss of benefits—not a postponement of payments—which would seem to be the case at first glance. The proposed changes would eliminate COLA this year and reduce by 50 percent the value of COLA each each year beginning in 1984. The accrued interests for the delay of cost of living adjustments are very substantial. What accountability to Social Security can we expect for monies not given to us on time?

We believe that better financial administration and accountability with regard to the relationship of general revenues and the Social Security system would make some of the proposed changes unnecessary. The validity of this statement is confirmed by the fact that 11 million dollars have been lost by erroneously sending monies to people who are deceased. Ultimately, the Treasury, not Social Security, will be the beneficiary of these monies.

We support the Social Security System. Although inadequate, it is often the sole means of support of the most vulnerable of our agency's population, that is, 2 million elderly Hispanics in New York City.

Our culture is rich in proverbs and sayings and there is one that says "Del dicho al hecho hay un gran trecho". There is a great chasm between the word and the deed.

That chasm not only exists but may have become even wider since the word given by our president that social security would not be touched, has not been kept. In fact, even the "safety net" has disintegrated.

We appreciate the efforts being made to protect and preserve the system, but it must not be made at the expense of those already burdened and suffering inordinately from unemployment, inflation and the spiraling costs of health care.

Remember also that we die at an earlier age than other older Americans. We do not have the advantage of pensions on which to depend and our social security is among the lowest, therefore making it much harder for us to survive in this nation.

As we say in Spanish, "With his sweat he fertilized and irrigated the soil of this earth in order to produce more", to live better.

Social Security was created to help the worker after retirement, but we have retired to poverty, deprivation and only our faith has kept us going. The older woman that has served as the homemaker is alone now, old and has no power. She is a poor, isolated citizen in the United States.

We need help now in 1983, now that we are living. We are not looking towards 1989 because the only thing we are sure of is that we are alive today!

We cannot plan to make a future beautiful picture. The only thing we can do is to thank God for today and hope that tomorrow will also be here for us to enjoy.

I thank you most sincerely for granting me and the Hispanic population which I represent the privilege of presenting this testimony. I pray that your decisions on behalf of all elderly persons will be made based on compassion and a search for a true understanding of our living conditions.

Mr. **SHANNON**. Mr. Sheinkman.

STATEMENT OF JACK SHEINKMAN, CHAIRMAN, SOCIAL SECURITY COMMITTEE OF THE COMMUNITY COUNCIL OF GREATER NEW YORK, SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO, AND CHAIRMAN, AMALGAMATED BANK OF NEW YORK

Mr. **SHEINKMAN**. Mr. Chairman, my name is Jack Sheinkman.

I am secretary-treasurer of the Amalgamated Clothing and Textile Workers Union and chairman of the board of the Amalgamated Bank of New York. Today I am appearing here on behalf of the Community Council of Greater New York whose Committee on Social Security I have chaired for the past 7 months.

With me today is the associate executive director of the Community Council, Susan Kinoy.

This committee was established some 7 months ago and was comprised of persons from business, labor, social service community, government agencies, and retirees. We issued our report last October, a report entitled "Approach to the Social Security System, Confidence, Not Crises."

Copies of the report were delivered to all members of the National Commission on Social Security Reform and to all Members of Congress. Mr. Chairman, I would like to have a copy of my report appended to my statement and made part of the record.

Mr. **SHANNON**. It will be made a part of the record without objection.

We congratulate the National Commission on Social Security Reform on its important decision to maintain the fundamental structure and principles of social security. It correctly attacked short-term and not long-term issues.

It preserved the bend points, the principal factor in calculating benefit levels. It did not raise the age of retirement.

We applaud the Commission's move toward universal coverage; the removal of the trust funds from the unified budget; the crediting of uncashed checks to the trust funds and the continued authorization of interfund borrowing. We also approve the first steps toward infusion of some general tax revenues into the social security system through the 1-year tax credit for employees on the increase in the social security tax and the fail-safe provision where, under very extreme conditions, borrowing from general tax revenues could take place.

For the above listed reasons, the Community Council of Greater New York, which I might indicate in its report does follow the general guidelines of the report issued by the Commission. The Commission's own recommendations parallel those issued by our own committee's report prior to the time that the Commission issued its report.

We recognize the political realities that made it necessary to bring together a package of recommendations that would require sacrifices from many members of our society. Our major concern is the impact of the compromise on the poorest people in our society, those at or just above the poverty line who rely on social security for all, or almost all, of their total income.

While supporting the compromise, our constituency was concerned about the proposal to delay the cost-of-living adjustment for 6 months. The delay is cumulative and will impact on persons for years into the future.

The aging and disabled population on social security are large users of medical care. As you have heard before, the costs of medical care are rising far more rapidly than are costs in almost any other part of our economy. Thus the delay in COLA will cause severe hardship to the majority of the aging whose medical care costs, including medicare payments, continue to increase.

We urge consideration of acknowledging the right of recipients to a cost-of-living adjustment for the 6 months starting July 1, 1983, but that its payment be deferred until economic conditions improve.

The formula governing this deferred payment between now and 1990 would be agreed to as a part of the 1983 legislation. We believe it will be possible to make good on these deferrals.

Our committee continues to have serious questions about the very pessimistic economic projections on which the Commission's report was based. We based our recommendations on the II-B projection, intermediate pessimistic, as developed in 1983 by the social security trustees whereas the Commission used III, or the most pessimistic forecast.

Furthermore, we note a discrepancy between the Commission's pessimistic assumptions and the optimistic projections of President Reagan in his recent state of the union address.

Let me call to this committee's attention each 1 percent reduction in unemployment will reduce that deficit by $4 billion in each year in which we reduce the present 10.4 percent rate of unemployment.

In terms of equity, we would urge that when the economy improves employees will obtain a credit on the second increase in the social security tax.

We approve the taxing of one-half of social security benefits when income from other sources is $20,000 for an individual or $25,000 for a couple. This parallels our own committee's recommendation to be credited on the OASDI trust funds.

However, we urge that the non-social-security income be indexed or adjusted to protect retirees against inflation.

The major funds for social security come from employer and employee contributions. The fundamental method for improving the social security system, therefore, is rapidly increased employment.

As Congress analyses social security, it must do so within the context of improving our economic health. We see economic growth, not benefit cutbacks, as the key to the stability of social security.

Our committee will be vigilant during this congressional session concerning proposals that might cause additional financial hardship to the poorest beneficiaries who, in addition to social security, rely on SSI, medicaid and medicare.

To summarize, we support the report of the National Commission on Social Security Reform. We understand that the delicate balance of recommendations will be voted up or down as a package. However, we serve notice on this committee and on the Congress that if, in the final bill that goes before Congress, this package unravels, and there is greater encroachment on benefits of the poorest beneficiaries, then we will actively oppose the changes.

Every American citizen, both young and old, gains from the social security system. It is social insurance and a social contract. The health of many of our public and private social and economic institutions is dependent upon ties to the system. With confidence in the integrity of social security and belief that permanent stability can be achieved in the system, I offer this testimony.

Thank you, Mr. Chairman.

[The report referred to follows:]

AN APPROACH TO THE SOCIAL SECURITY SYSTEM

CONFIDENCE NOT CRISIS

A REPORT AND RECOMMENDATIONS

OCTOBER 1982

COMMUNITY COUNCIL
OF GREATER NEW YORK

AN APPROACH TO THE SOCIAL SECURITY SYSTEM

CONFIDENCE NOT CRISIS

OPTIONS FOR ACTION

PREPARED FOR THE BOARD OF DIRECTORS
BY THE
AD HOC COMMITTEE ON SOCIAL SECURITY

JACK SHEINKMAN, CHAIR

NOVEMBER, 1982

Community Council of Greater New York
225 Park Avenue South
New York, New York 10003

Mrs. Leonard H. Bernheim
Chairman of the Board

Jack Bigel
President

Bernard M. Shiffman
Executive Director

INTRODUCTION

With this Report "An Approach to the Social Security System - Confidence Not Crisis", the Community Council's Ad Hoc Committee on Social Security has completed the first part of the charge given to our Committee by Jack Bigel, President of the Council.

For their hard work, commitment and productivity, I wish to thank the members of the Committee, experienced volunteers from business, labor, foundations and human resources, and the knowledgeable experts who served on the Technical Work Group. It enabled us to focus on Social Security as a vital issue affecting our community and nation, and to produce this Report containing recommendations which we believe will serve the public interest.

It was a pleasure to work with Dr. Hal Lewis who chaired the Sub-committee on Benefits and Entitlements, Mr. Arthur Garson who gave leadership to the Sub-committee on Finance and Mr. Matthew Schoenwald who convened the Sub-committee on Information and Public Education.

And finally, I wish to commend the excellent staff service provided to our Committee by the members of the Council staff; Susan Kinoy, Mignon Sauber, Jerry Shroder and Nick Bollman under the direction of our Executive Director, Bernard M. Shiffman who kept us moving, stimulated and working so that we were able to meet our deadlines.

The recommendations represent our effort to stress the significant options which our elected representatives need to consider when the National Commission on Social Security Reform issues its report. It is our hope that our short-term and long-term recommendations concerning Social Security will become the subject of review and support by those who make the ultimate decision - the informed citizenry.

Jack Sheinkman
Chair
Ad Hoc Committee on Social Security

November, 1982

AD HOC COMMITTEE ON SOCIAL SECURITY

Jack Sheinkman, Chair
Secretary-Treasurer, Amalgamated Clothing &
Textile Workers Union, AFL-CIO;
Chairman, Amalgamated Bank of New York

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Mr. Morton Stavis, Esquire

Mr. Arthur Y. Webb, Acting Commissioner
New York State Department of Social Services

Ms. Elizabeth Wickenden,
Consultant on Social Security

COMMUNITY COUNCIL OF GREATER NEW YORK

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Mignon Sauber, Associate Executive Director
Jerry A. Shroder, Associate Executive Director

Coordinator: Susan K. Kinoy
Associate Executive Director

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Ms. Roberta Spohn, Deputy Commissioner
New York City Department for the Aging

Ms. Adele Trobe
Citizens' Committee on Aging

Mr. John Wren
New York State Office for the Aging

1/ This group provided only technical assistance. All policy decisions were made by the Ad Hoc Committee on Social Security

AN APPROACH TO THE SOCIAL SECURITY SYSTEM

CONFIDENCE NOT CRISIS

OPTIONS FOR ACTION

SUMMARY

The Social Security System is fundamental to the welfare of this country. It is of deep concern to all persons, present and future beneficiaries. The System is now confronted with a growing crisis in confidence, exaggerated by the political process. While the emergence of intermittent fiscal problems was foreseen by the architects of Social Security, the current problems are exacerbated by existing economic conditions. A National Commission on Social Security Reform has been appointed to address this situation and will shortly issue its recommendations. It is expected that legislative action will follow.

The Community Council of Greater New York has focused special attention on the Social Security program for the last five years. In response to the current debate on these issues, the Community Council convened a special Ad Hoc Committee on Social Security in July, 1982 to provide an independent citizen forum for the study of Social Security and the development of recommendations to meet the current situation.

The Committee was comprised of a distinguished group of representatives from private industry, labor, government, the academic community, and voluntary human services. It included spokespersons for retirees and persons still in the workforce. This diverse membership on the Committee was designed to reflect the broadest public interest.

Throughout its deliberations, the Ad Hoc Committee was assisted by a Technical Work Group composed of experts knowledgeable in various areas related to the financing and operation of Social Security.

The Committee met over a three month period and divided into three sub-committees on financing, benefits and entitlements and public education. A comprehensive examination was made of the best information available on all aspects of the Social Security System, including the review of original material prepared by the Technical Work Group. In addition, a presentation was made to the Committee by a staff member of the National Commission on Social Security Reform. 1/

1/ All materials studied by the Ad Hoc Committee on Social Security (including all data available to the National Commission on Social Security Reform) available upon request.

CONFIDENCE NOT CRISIS
OVERALL GOVERNING CONCEPTS

- *The Social Security System is basically sound and essential to the welfare of the nation, to persons young and old.*

- *Social Security is the primary source of income and purchasing power for millions of retirees, disabled persons and survivors of persons who have died prematurely. For some, it is the only source of income. However, at the present time, the level of Social Security benefits is inadequate to meet the needs of many of its beneficiaries. 1/ For example, the most vulnerable aging, (single persons, usually women, in the oldest age category) have a level of income substantially below the poverty level.*

- *Our economy is presently experiencing severe problems which are reflected in the Social Security System. The present shortfall in Social Security income is impacted by unemployment since Trust Funds' revenues are based on payrolls. Increasing employment among all age groups would improve directly the fiscal viability of the Social Security System. (Note: Every one percent increase in unemployment reduces the Social Security Trust Funds' income by $4 - $4.5 billion annually).*

- *The System is faced with an immediate short-term financial problem. However, between 1990 and 2020, the System will be relatively sound. 2/ Following this period there may be a long-term difficulty in financing.*

- *Steps must be taken to meet the short-term financing needs. These steps can occur without fundamentally altering the System.*

- *Such steps should be consistent with the principles inherent in the design of the Social Security System. These include social adequacy and individual equity, universality, inter-generational contract, and economic interdependency with other retirement income systems. 3/*

OVERALL RECOMMENDATIONS

- *No reductions should be imposed on Social Security benefits or entitlements to solve the short-term financing problems. Moreover, some recently cut benefits should be reinstated.*

1/ Social Security, Its Role in Providing Retirement Income, New York City Department for the Aging, October 1982

2/ Health care costs are skyrocketing for all parts of the population. The burden of this problem should not rest solely on beneficiaries of Medicare, the Health Insurance part of Social Security. This problem must be addressed in a wider context than Social Security. (See p.11)

3/ Papers & Data: The United States Social Security System, p. 1, Community Council of Greater New York, August, 1982 (Appended)

- A number of financing options to meet short-term deficits, which do not alter the System, are available. They should be undertaken during the immediate period.

- No short-range solutions should be used to solve long-range problems. The short-range and long-range problems are distinct and should be addressed separately.

- We encourage the development of stable financial solutions which will hold for long periods of time. Solutions for the long-term, (after 2020) will be complex and are difficult to project. Planning, to address these problems, must be ongoing and continuous throughout the period of financial stability (1990-2020). However, decisions concerning the long-term required changes (for the post-2020 years), should not be locked into place and legislated by Congress until more timely demographic and fiscal data are available. There is sufficient time for thorough study before any long-term major adjustments in Social Security are made.

- Immediate steps must be taken to reaffirm for the public the important role that the Social Security System plays in our society. This is necessary to ensure continuing confidence in the System.

It is our conclusion that every American citizen, both young and old, gains from the Social Security System. It is social insurance. The health of many of our public and private social and economic institutions is dependent upon ties to the System. With confidence in the integrity of Social Security and belief that permanent stability can be achieved in the System, we offer this report.

FINANCING RECOMMENDATIONS FOR IMMEDIATE ACTION

INTRODUCTION

The following recommendations provide, for the period of financial shortfall, a series of options to be used flexibly, as changing economic condidtions necessitate. [1]

If all of our short-term recommendations were enacted, revenues would exceed anticipated costs.

Measures regarding improved financial administration, interfund borrowing and revenue enhancement should be enacted immediately; they are designed to ensure that no basic reductions in entitlements will be made during the projected 1983-1990 financial shortfall.

RECOMMENDATIONS

1. RELATIONSHIP OF SOCIAL SECURITY FUNDS TO OTHER GOVERNMENT BUDGETS AND ACCOUNTS

Social Security funds should once again be separated from General Revenue Funds of the Treasury. This would protect the integrity of the Funds which are often wrongly considered as part of the Federal Budget. Better public understanding of the construction and content of the Federal Budget will also result from this action.

2. IMPROVED FINANCIAL ADMINISTRATION

a. Trust Fund Investments

Investments of Social Security Trust Funds should be made in a manner which earns maximum returns without unreasonable risks, as would be the case with any other institutional investor. Any loans to other government bodies, such as investments in low-yield Treasury notes undertaken for the purpose of reducing the general Federal Treasury deficit,should be prohibited. (Note: Trust Fund investments are now producing greater interest rates than in previous years. However, the Social Security Trustees and Congress should be vigilant in overseeing future loans to make sure that the System maximizes returns and does not revert to poor investment practices.)

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[1] All recommendations are based on the II-B projections (Intermediate - Pessimistic) on the condition of the Social Security Trust Funds, as developed for the Social Security Trustees Report. These projections use commonly accepted assumptions relating to several economic factors which influence Social Security revenues and benefit levels including unemployment, real GNP (Gross National Project), inflation, wage levels and interest rates. (See Table C, Papers & Data: The United States Social Security System, Community Council of Greater New York, August 1982, (Appended).

b. Repayment of Lost Income

Income lost to the Social Security Trust Funds due to investment practices which secured below average returns from the U.S. Treasury should be reimbursed to the Social Security Trust Funds. If the funds had been invested to earn the maximum return on marketable U.S. government securities, it is estimated that the Trust Funds would have earned an additional $14.9 billion between 1961 and 1981. 1/

c. Credit Uncashed Checks

All uncashed Social Security checks should be credited back to the OASDI Trust Fund instead of to the general treasury, as is now the case. If applied retroactively, to the start of the program, this action would add $250 million to the Trust Fund and would save approximately $30 million yearly in the future.

d. Trust Fund Reserves

The OASDI Trust Fund should maintain reserve funds in an amount which will be sufficient to meet cash flow needs, based on reasonable and prudent projections and sufficient to protect public confidence in the ability of Social Security to meet its obligations without interruption.

3. BORROWING TO SUPPORT THE FUND 2/

a. Interfund Borrowing

Current interfund borrowing authority should be extended beyond the December 31, 1982 expiration date for as long as it is necessary to meet any cash flow need in the Trust Funds. Borrowing by the Trust Funds should be undertaken only if repayment is made at a rate required under prevailing law. The integrity of the separate Funds should be maintained.

1/ Testimony of Senator William Proxmire before the Senate Committee on Finance, Sub-Committee on Social Security, June 8, 1982. Confirmed in later testimony by Mark Cahoon, U.S. Chamber of Commerce.

2/ Funds borrowed should always be repaid at prevailing rates. Repayment of loans will be made during the "healthy period", 1990-2020. The repayment plus interest on any borrowing options will cut into this period's financial stability. Less time will therefore be available to work out long-term financing solutions for the post-2020 period.

b. Special Bond Issue

One way to take care of the OASDI shortfall from 1983 to 1990 would be to legislate the issuance of a special Social Security bond similar to "Fannie Mae" (Federal National Mortgage Association) certificates in small denominations with an interest rate calculated to bring in sufficient funds to cover the need.

We estimate that an 8 to 12 year Bond Issue with competitive interest payments in the amount of approximately $10 billion per year, would be sufficient to cover the shortfall and the annual interest. These would be special bonds for Social Security purposes. While they would represent an obligation of the U.S. Treasury, they would not add to the general Budget deficit.

c. Borrowing from General Revenues

The Trust Funds should be given standby authority to borrow from General Tax Revenues as necessary. Repayment of such loans should be accompanied by a reasonable interest charge, in accordance with general fiduciary principles.

Such borrowing should take place as a last resort in dealing with the short-term financing problem to avoid a hiatus in payment of benefits. If necessary, such borrowing would have only a marginal impact on the size of the Federal deficit.

4. ADDITIONAL REVENUE ENHANCEMENT MEASURES

a. Universal Coverage

Congress should mandate universal coverage under Social Security. Coverage should be extended to all public and private employees. Universal coverage would be financially sound and would also be more socially equitable and acceptable than present coverage. In making this change in the Social Security System, persons receiving or planning to receive funds from other retirement plans, should not have pension entitlements cut. Re-entry should be mandated for all those governmental units and not-for-profit organizations which have already withdrawn from the System. Future withdrawals by governmental and non-profit agencies should be prohibited. The integrity of the Social Security System requires full participation. Universal coverage would produce an additional $16.3 billion in 1984, and another $18.2 billion in 1985.

b.-1 Revise the Payroll Tax Increase Schedule

The increases in the Social Security payroll tax schedule for 1985, 1986, and 1990 should be replaced by a revised payroll tax adjustment for each year from 1984 to 1990. This revision of the payroll tax schedule would supply an additional $50 to $60 billion between 1984 and 1990.

Year	Currently Scheduled Payroll Tax Rate for OASDHI Combined	Proposed Altered Rate for OASDHI Combined
1984	6.7	7.44
1985	7.05	7.56
1986	7.15	7.63
1987	7.15	7.65
1988	7.15	7.65
1989	7.15	7.65
1990	7.65	7.65

(Note: If a specific Trust Fund reserve were to be desired, then higher payroll tax rates would be necessary.)

b.-2 Employees should obtain a refundable income tax credit equal to the increase in their share of the tax beyond that prescribed by current law.

c. Expand the Employer's Share of Payroll Subject to Social Security Tax

The FICA rate should be applied to the entire payroll without regard to the legal wage taxable base in calculating the employer's share of the payroll tax. 1/ & 2/

This action could generate additional Social Security revenue of $10.5 billion in 1984 and $12 billion in 1985. It is estimated that in total this provision would generate an additional $100 billion in revenues between 1983 and 1990. 3/

1/ At the present time, Social Security taxes are paid both by the employer and the employee on annual salaries up to $32,400. The wage base income limits now scheduled in law for purposes of calculating the employee's payroll tax should be maintained.

2/ Businesses are able to recover such expenses through their income tax mechanism. Special provisions to provide for a proportional adjustment for non profit and government agencies may have to be made.

3/ Consideration might also be given to making all or a greater part of the payroll tax increase payable by the employer. (This would be within the present formula of applying the FICA rate to annual salaries up to $32,400.)

BENEFITS & ENTITLEMENTS, RECOMMENDATIONS FOR IMMEDIATE ACTION

INTRODUCTION

No reductions in benefits or entitlements should take place during the next eight years to meet the immediate financial shortfall. Other methods listed in our financial recommendations will satisfy the short-term financial requirements of the Social Security System. It is not necessary or fair at this time to burden either present or future beneficiaries with cuts in benefits.

RECOMMENDATIONS

a. Bend Points

We oppose any change in bend points.

Bend points are a principal factor in the calculation of benefit levels. They also determine the extent to which benefits are weighted in favor of low-income wage earners. A change in the bend points would result in lower benefits and would diminish the social adequacy aspects of the Social Security System.

b. COLA (Cost-of Living Adjustment)

COLAs should not be cut. 1/

Currently, the COLA is based on the C.P.I. (Consumer Price Index). It is understood that the National Commission on Social Security Reform is considering COLAs based on the increase in wages minus 1½%. We oppose this formula. If this suggested formula were applied, after ten years, based on II-B projections, benefits would be 4% lower than under the present formula.

(Note: Under present law, no change in benefits can be made until there is a 3% change in the C.P.I. The Commission's suggested formula might bring the increase below that 3% "trigger" mechanism. If the Commission's suggested formula were adopted, it should include a provision that a 3% increase in wages will be sufficient to trigger a benefit increase).

1/ We suggest that immediate study and consideration be given to the averaging of wages and the C.P.I. as the basis of COLAs. (In some years, one of these variables rises more than the other). If such averaging takes place, there should be no subtraction of additional percentages from the COLA.

c. Age of Retirement

No increase should be made in the retirement age at which there is eligibility for full benefits and there should be no reduction in the present benefits for early retirement.

Studies have found no relationship between longevity and the ability to work longer periods of time.

It has been suggested that providing incentives to employers and employees is an alternative approach to encourage persons to work longer.

> Persons who continue working after age 65 could cease making contributions to the Social Security Fund. Employers would continue to contribute their share and continue to deduct this as a business expense.
>
> Since persons who work longer have a shorter period of retirement, their Social Security pensions should be correspondingly increased. At the present time this increase is 3% annually. [1] In actuarial terms, this could be raised to approximately 7% annually.

d. Reinstitution of Minimum Benefits

Persons at age 65, who have met all eligibility requirements but who have not paid into the System enough funds to qualify for benefits of at least $122 per month, should again be provided with a minimum benefit of that amount. This benefit should be indexed to reflect cost of living increases. This should not entail a means-test.

Persons who became eligible for benefits below $122 after January 1982, should receive the $122 monthly minimum.

The group that would benefit from the change is composed of: women who spent many working years at home who were not covered by Social Security, farmers, members of minority groups who worked intermittently, or persons with problems of illness that affected their working patterns.

Many of these persons (e.g. domestic workers or farmers) were only permitted to enter the System long after it began and could not amass enough credit to qualify for adequate benefits. These persons warrant special economic protection.

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[1] For persons who became 65 prior to 1981, the pension increase is 1% annually.

PRESERVING CONFIDENCE IN THE SOCIAL SECURITY SYSTEM RECOMMENDATIONS FOR IMMEDIATE ACTION

RECOMMENDATIONS

a. Educational Campaign

There is an immediate need for a factual, educational and highly visible campaign by government and the private sector to reassure retirees and working people that Social Security is sound and is the "best buy" available for Retirement, Survivors, Disability and Health Insurance (Medicare) benefits.

This ongoing campaign should include use of the media, flyers, explanatory brochures, factual presentations. The effort should begin with the educational system, and extend to our entire society, including unions, employer groups, community organizations and others.

The campaign would explain that a sizable percentage of beneficiaries (45%) are not retired workers. They receive benefits as dependents or Disability or Survivors benefits. (See Community Council Research Note No. 47, September, 1982.)

The campaign should also indicate the interdependent relationship between Social Security and private retirement benefits.

b. "Welcome to Social Security" Letter

Every new Social Security registrant should receive a letter accompanying his or her Social Security card in which he or she is welcomed to the System, advised of its comprehensive coverage, including the various payments available, and told of its importance.

c. First Steps Towards Periodic Reporting

All participants should be assured that their covered earnings are appropriately credited to their accounts.

To this end:

1. Every means should be developed and utilized to encourage Social Security participants to request, on some periodic basis, an update on their accounts. (Note: presently only two million requests are received each year out of almost 200 million accounts extant).

2. Priority should be given by the Social Security Administration to the updating of equipment and systems so that wage credits are posted more promptly to participants' accounts.

d. Social Security Advisory Council

The Social Security Advisory Council should be appointed by the President of the United States, instead of by the Secretary of Health and Human Services. Its report should be sent to the President as well as to the Speaker of the House, the President of the Senate and to the Trustees of Social Security. This body should be convened by the President more frequently than every four years, if he or Congress deem this to be necessary. It should be bi-partisan. The composition of the Advisory Council should remain intact: a Chair, equal numbers of representatives of employer and employee groups, also representatives of the self-employed and the public.

LONG TERM RECOMMENDATIONS FOR FUTURE STUDY AND ACTION

POLICY

The social and the economic impacts of any long-term changes in Social Security must be carefully studied and not acted upon until the end of this century. This would provide sufficient time to consider fully the impact of all options.

Social Security is an integral part of the overall economy. Both the benefits paid out and revenues collected by the System have a direct effect on consumer spending and the Gross National Product. Changes in the System would influence the well-being of individual recipients as well as many of our major social and economic institutions. Public service programs and private pension plans in particular would be affected.

No proposed change should increase the number of persons below the poverty line. Projected changes in benefits should be based on a realistic standard, e.g. the Replacement Rate, the Poverty Index or the Bureau of Labor Statistics Lower or Intermediate Living Standard. 1/

RECOMMENDATIONS FOR STUDY AND FUTURE ACTION

a. Study the Inclusion of the Employer's Share in an Individual's Taxable Income at the Time Social Security Benefits are Received

Social Security benefits for those whose income is below the median level, including Social Security benefits, should not be taxed.

The employer's share of an individual's Social Security benefit (1/2 of the benefit level) should be subject to income tax at the time benefits are received. Revenues generated by this tax should be credited to the Social Security Trust Funds. This provision should be phased in. Also included in taxable income should be any portion of the Social Security benefit that resulted from an employee's payroll taxes on which an income tax credit had been received.

b. Study Required of Medicare Financing

While emphasis is centered here on the financing of health care for the aging, the entire matter of the planning and the financing of health care for young and old must be studied.

1/ The Bureau of Labor Statistics standards are no longer being updated by the government. Others will have to undertake this task. It is suggested that the Social Security Administration itself might update the standard being used.

Continued increases in health care costs will pose major financing problems for the Medicare Program in the near future. Action needs to be taken to ensure the ongoing stability of this Program which is essential to the health of older Americans.

Medicare now covers only about 41 percent of the health care expenses of older people. Reductions in Medicare benefits would merely shift a greater burden of health care cost onto the elderly. This is not acceptable.

Unlike retirement benefits, the amount of Medicare benefits received by a recipient is not related to past earnings. It is available to Social Security beneficiaries aged 65 and over who can afford the deductibles and co-insurance.

In planning for the future of Medicare, it has been suggested that its financing be shifted to General Revenues. 1/ A visible income tax surcharge dedicated to Medicare could be enacted to pay for this. The payroll tax revenues freed up by this change should be used to support the OASDI Trust Funds.

Special concern is expressed about the impact on medical care coverage of any postponement of retirement benefits. At the present time, Medicare benefits have been coupled with eligibility for retirement benefits. Persons aged 65 and older are in special need of adequate health insurance.

c. Study Needed of the Relationship Between Retirement Benefits and Disability Benefits

Persons who cannot work after age 50 because of health reasons, who do not qualify for Disability benefits, and whose unemployment benefits run out, may have to use all of their savings until such time as Social Security benefits are available. It is necessary to establish a series of new definitions and levels of Disability to protect these people from economic hardship.

d. Study Means of Providing Regular Periodic Reporting to Future Beneficiaries as an Aid in Preserving Confidence in the System

A study must be undertaken to ascertain the most cost effective method by which the Social Security Administration could assume the initiative in communicating the status of their accounts to all participants. This would be a technique to help provide information about and confidence in the System. As a first step, automatic notification should be provided to all persons who have paid into the System, when they reach age 55. 2/

1/ We urge vigilance against the means-testing of Medicare should such financing occur.

2/ This should involve a plan for obtaining updated addresses of participants.

Current law renders errors in credited wages applicable to Social Security accounts virtually impossible of correction after passage of three years, three months and fifteen days after the calendar year in which the wages were paid (except for fraud or Social Security Administration error.)

Automatic reporting will provide clear updated information on the status of their accounts to future beneficiaries. As important, it will be a means of assuring persons not yet receiving benefits that the System is prepared for the individual's future welfare. This will help to provide the confidence needed by the System.

A final word....................

This Ad Hoc Committee on Social Security is composed of a group of concerned New York citizens. We recognize that Social Security is a national program. However, it also affects us deeply as New Yorkers. We are in constant touch with the System as business people, as union members, as social workers, as planners and as beneficiaries.

When Congress meets on Social Security legislation, we will stand ready to comment and to speak for our recommendations. In addition, we pledge to cooperate in a partnership between the public and private sectors to publicize to all parts of our community the benefits of Social Security and our confidence in this workable and important System.

Mr. SHANNON. Thank you very much, Mr. Sheinkman.

Mr. Leggette?

STATEMENT OF CHARLES W. LEGGETTE, PRESIDENT, LEGGETTE & CO., INC., DALLAS, TEX.

Mr. LEGGETTE. Thank you. I am Charles W. Leggette, president of Leggette & Co., Inc., of Dallas, Tex. I realize you gentlemen have heard testimony from many witnesses this week and I would like to confine my comments to some remarks about my written testimony that was given to you earlier which I would like included in the record, please.

One of the problems I have heard over and over again today has been a genuine concern of the elderly for health care. Unquestionably the people on the panel today, as well as those who have testified before me, their major area of concern has been the rising cost of health care.

One of the things that affects us obviously is the underlying cost which hospitals have to pay today in order to maintain very well trained and qualified group of employees. When you get down to this and analyze the Social Security Commission's proposals, one of those particular proposals place directly upon this as one of the major components of health care costs.

That is recommendation No. 4. That is the mandatory coverage of all nonprofit organizations as of January 1, 1984. We have looked at this, and we have got a number of clients who are nonprofit organizations who have either never been in social security, or who have in the last 3 or 5 years gotten out of social security.

Our evaluation of this, Mr. Chairman, is that it will present a tremendous hardship on these organizations as well as their employees, and we think directly impact the cost of delivering health care in the United States today.

In my written testimony, I introduced certain mathematical demonstrations of the effects that the inclusion of recommendation No. 4 in the final legislation would have. But it is not a simple problem. When you look at nonprofit organizations there is tremendous disagreement as to the base of employees we are talking about bringing under coverage under recommendation four.

In the 1980 universal coverage study that was done for Congress, they pointed out there were approximately 900,000 nonprofit employees that were not covered by social security. However, I should point out that these 900,000 were deduced by a rather circuitous method. Basically they took census information and subtracted it from the number of persons who answered certain questions that certain way and subtracted the employees they knew were covered by hospitals.

About half these employees we are talking about not currently covered by social security, the 900,000, about half of these are in the health care industry. We know that. That is fairly factual. So we know if we apply the tax rates proposed to the average number of people in health care, we are talking about adding health care baseline costs over the next 6 years of about $4.7 billion to the base cost of health care that will be passed on to the consumer.

There are about 50,000 new nonprofit organizations approved each year by the IRS. Virtually no one knows a lot about nonprofits as a group. You have heard from several people today. No one seems to know all the answers about nonprofits.

I believe it was you, sir, that asked the question about what percentage were covered, what percentage weren't. And I don't know that anyone can answer that effectively. We looked at 36 hospitals who according to the SSA have pulled out of social security since those records have been kept. That is a number that is also in my testimony.

The estimated revenue of bringing these 36 institutions back in would represent only one quarter of 1 percent of the total revenue generation that the National Commission has recommended be generated, the $168 million under I think it is assumption three.

So we are talking about a very minor amount of money when we look at strictly those hospitals that have pulled out according to the Social Security Administration. Now, I don't believe the 36 number is correct. I think it could be as much as two times this. But those are the numbers they gave us.

As a consequence, we have got to rely upon it. One of the major problems about bringing people under social security, particularly these nonprofit institutions, is that there is a substantial body of them that have had pensions for a long period of time and the workers are going to end up suffering to a greater degree than the institution is.

There is no question about that. We have done the calculations on it. We know that those workers are going to have a shortfall in pension income. If their private plans are curtailed or terminated, we know consequently that because of the application of recommendation No. 6 on the double dipping so to speak, those employees are also going to be hurt, will not have full social security benefits.

So they are going to receive the brunt of the major impact of bringing these institutions back under social security. There are many other problems. I have run out of time and I want to respect that. But, gentlemen, I do wish that you would give some serious considerations to the plight of these institutions that have a direct effect upon one of the major concerns that has been expressed here all day today and I am sure last week too. That is our basic health care costs in the United States.

I thank you for your attention.

[The prepared statement follows:]

STATEMENT OF CHARLES W. LEGGETTE, FSPA, MAAA, EA, LEGGETTE & CO., INC., ACTUARIES & EMPLOYEE BENEFIT CONSULTANTS, DALLAS, TEX.

INTRODUCTION

I am Charles W. Leggette, President of Leggette & Company, Inc., a Dallas, Texas, based regional Actuarial Consulting firm providing services to over 500 clients in thirteen states. I am a Fellow of the American Society of Pension Actuaries and was the 1981 President of that Society. I am a Member of the American Academy of Actuaries and an Enrolled Actuary pursuant to the Employee Retirement Income Security Act of 1974.

Leggette & Company, Inc. is actively involved in delivering actuarial consulting services to a large number of health care institutions and is named Actuary for the Texas Hospital Association Retirement Plan for Member Hospitals.

I am appearing before you in my capacity as an independent consulting actuary and not as representative of any client or group of clients.

My principal purpose for testifying to you this morning is to discuss the concerns our firm has developed for the proposals to cover all employees of non-profit organizations effective as of January 1, 1984. My remarks will generally be limited to those matters which concern health care institutions, an area in which we have considerable expertise.

Finally, with respect to my firm's self interest in these matters I should point out that a majority of our clientele in the health care industry are covered by Social Security and that of our clients, less than ten have withdrawn or are in the process of withdrawing.

STATEMENT

PRINCIPAL MATTERS OF CONCERN

The National Commission on Social Security Reform (the Commission) has made Recommendation Number Four (4) which states in part . . . the National Commission recommends that coverage under the OASDI program should be extended on a mandatory basis, as of January 1, 1984, to all newly hired civilian employees of the Federal Government. The National Commission also recommends the OASDI-HI coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations.

We will refer hereafter to the provision relating to a phase in of Federal workers as the "Federal rule".

Under the assumption that there are two clear cases for examination here, I would like to draw your attention to the areas of our greatest concern.

The two clear cases are:

(1) Hospitals who have never been covered by Social Security, and

(2) Hospitals who have been covered and who have withdrawn from the system.

According to the Office of the Actuary for the Social Security Administration, thirty-six nonprofit hospitals have withdrawn from the Federal Social Security Program since records on such withdrawals have been kept. These numbers represent withdrawals up to January 1, 1983. Over two hundred other institutions have given notice pursuant to their rights to withdraw and would be able to withdraw sometime during 1983 and 1984.

The Office of the Actuary states that the most active withdrawal period did not commence until 1980/1981 when much public attention was drawn to the matter. This corresponded approximately with a growing public awareness that Social Security as a viable financial entity was undergoing considerable scrutiny related to its solvency on both a short term and long term basis.

At the date of the writing of this testimony, we have not been privy to the estimated revenue generated solely by the immediate coverage as of January 1, 1984, of all nonprofit workers. Those revenues were included in the estimates given for coverage of newly hired Federal workers along with immediate coverage of all nonprofit workers. We do have available from the Office of the Actuary, Social Security Administration, the taxable payroll of all withdrawing nonprofit hospitals since such records have been kept. The date of initial recordkeeping is not known.

In the absence of exhaustive number regarding all nonprofits we would like to review the expected tax revenue from the group on which we have statistics.

Our purpose for computing these revenue estimates is to allow us to examine an alternative to immediate coverage; specifically, use of the Federal Rule.

The following table illustrates the expected revenue from the thiryt-six (36) hospitals included in our statistics. Beginning in 1984, we have applied the Commission suggested tax rates to the successive years' payrolls, assuming such payrolls increase at the rate of five percent (5%) per year.

ESTIMATED REVENUES ASSUMING IMMEDIATE COVERAGE OF NONPROFIT HOSPITALS WHO HAVE WITHDRAWN

Calendar year	Proposed tax rate	Payroll for the 36 hospitals	Expected tax revenues
1984	0.0700×2 = .14	$432,000,000	$60,480,000
1985	.0705×2 = .1410	453,600,000	63,957,600
1986	.0715×2 = .1430	476,780,000	68,108,040
1987	.0715×2 = .1430	500,094,000	71,513,442

ESTIMATED REVENUES ASSUMING IMMEDIATE COVERAGE OF NONPROFIT HOSPITALS WHO HAVE WITHDRAWN—Continued

Calendar year	Proposed tax rate	Payroll for the 36 hospitals	Expected tax revenues
1988	.0751×2 = .1502	525,098,700	78,869,825
1989	.0751×2 = .1502	551,353,600	82,313,311
Total estimated revenue			425,742,218

The revenue total is $425,742,218, or approximately $0.43 billion for the 6 year period under examination. This represents approximately one fourth of 1 percent of the Commission's suggested revenue generation of $168,000,000,000.

ESTIMATES OF REVENUE WHEN THE "FEDERAL" RULE IS USED

If parity with newly hired Federal civilian employees were extended to these institutions and assuming a turnover rate as follows what then would be the revenue generated using the Federal Rule?

These turnover rates were extracted from our experience with forty (40) medium to large size health care institutions.

Years of employment: Turnover rate:	*Percent*
0 to 1	40
1 to 2	25
2 to 3	15
3 and more	10

REVENUE ESTIMATES FOR NONPROFIT HOSPITALS WHO HAVE WITHDRAWN ASSUMING TREATMENT AS WITH NEWLY HIRED FEDERAL WORKERS

Calendar year	Proposed tax rate	New payroll for the 36 hospitals	Expected tax revenues
1984	.0700×2=.14	$172,800,000	$24,192,000
1985	.0705×2=.1410	249,480,000	35,177,000
1986	.0715×2=.1430	286,068,000	40,908,000
1987	.0715×2=.1430	320,060,000	45,769,000
1988	.0751×2=.1502	357,067,000	53,631,000
1989	.0751×2=.1502	391,461,000	58,797,000
Total estimated revenue			$258,474,000
Less: Total estimated revenue under existing proposal			425,742,218
Equals loss in revenue due to grandfathering the 36 institutions			167,268,218

This represents less than one tenth of one percent (.1 percent) of the total Commission revenue needed, and approximately 61 percent of the revenues generated should immediate coverage become law.

Of course, revenue should not be considered alone in approaching a solution to the question of immediate coverage.

Based upon statistics gathered on newly hired workers after withdrawal from Social Security there is a considerable body of workers who go where the paycheck is the highest. Allowing the State, county and municipal hospitals to remain out, may merely exacerbate the nonprofits' job of attracting and retaining such workers. Quite obviously, a similar argument can be made for not letting them out in the first place, however we assume such was carefully considered when enabling legislation permitting such "opting-out" was enacted.

I would like to focus on the effects of immediate coverage on institutions who have never been covered by Federal Social Security.

In discussing the possible coverage of State, County and Municipal entities, the Commission noted that in many cases such governmental units have had long standing, soundly funded pension systems. While the urgency of this matter has not allowed sufficient time to gather exhaustive statistics, we find that of the available data regarding never covered Nonprofits, much the same scenario exists.

Unlike their governmental counterparts however, the nonprofits will face a substantial financial hardship. Likewise, the employees of these institutions will bear a considerable burden by their immediate converage under Federal Social Security.

Among the most obvious consequences of this action will be

Inability of these institutions to finance concurrent private and Federal Social Security Systems such that the result will be the termination of the Private portion of the program or substantial curtailment of the private portion of their retirement programs.

A disproportionate hearing of the burden of such curtailment or termination by those who can least afford such results. The middle and lower income employee in the age range of 45 to 60 will not have sufficient time to accrue benefits under the Social Security System and clearly will not have accrued sufficient pensions under the private system to maintain a reasonable standard of living.

Aggravating this two-edged sword of income deficiency will be the results, if enacted, of Commission Recommendation Number Six (6). Under this proposal a large number of employees of these nonprofit institutions will receive reduced benefits from the already low amounts expected to be received if immediate coverage becomes law.

The taxing of Adjusted Gross Incomes over $20,000 should provide more than sufficient penalty against "double-dipping" and, editorially speaking, given the difficulty of the retired population in meeting adequate standards of living, we hardly think total annual income of less than $20,000 per year permits a lavish existence.

The following table illustrates the Social Security benefits and corresponding replacement ratios for employees first entering the system at various ages. The computations are based upon a salary of $16,485, which it the average of the average salaries paid to a number of the institutions affected by the proposed provisions.

Age at which first covered by Federal Social Security	1983 annual pay (1)	Projected annual pay at age 65 (2)	Projected social security benefit (3)	Replacement ratio (3 divided by 4) (4)
45	$16,485	$41,656	$10,416	25.00
50	[1]	32,639	7,116	21.80
55	[1]	25,593	3,992	15.61
60 [2]	[1]	20,037	3,072	15.33

[1] Same.

[2] Note that this employee would not have sufficient quarters of coverage for retirement benefits.

Note that Social Security Benefits are illustrated on an annual basis.

RETIREMENT INCOME AVAILABLE TO A NEWLY ENTERING EMPLOYEE WHOSE PRIVATE PENSION PLAN HAS BEEN DISCONTINUED

Age at which private pension plan terminates	Accrued pension (private) (1)	Social Security benefit (2)	Total retirement income (3)	Final pay at age 65 (4)	Replacement ratio (3 divided by 4) (5)
45	3,734	10,416	14,150	41,656	33.96
50	4,978	7,116	12,094	32,639	37.05
55	6,222	3,992	10,214	25,573	39.94
60	7,467	-0-	7,467	20,037	37.27

In the above example, if the age 45 employee had always been covered by Social Security, his annual Social Security benefit would have been $15,561.60 alone.

IMMEDIATE COVERAGE—THE FUNDING SHORTFALL

The nonprofit health care facility is unique. For the institutions we reviewed, the average Medicare reimbursement was approximately forty percent (40%) of the annual budget.

Should immediate coverage become a reality the major problems facing the institution are:

1. How to deal with existing benefit programs which may or may not have been in place for considerable periods of time and with the general disruption of personnel which occurs inevitably with such change.

2. ERISA, which governs private pension plans is neither kind nor gracious with respect to the termination of such plans. What significant monetary committment is required therefore to close out or curtail the private system upon being covered by the statutory Social Security system?

3. Since Social Security does not provide certain benefits for employees with less than 5 or 10 years of coverage, how and what benefits must be maintained for the intervening period in order to compensate for the lack of such coverage?

4. If the allowable increase in basic hospital expense has been used for the fiscal period, who will pay for the substantial increase in pension (both Social Security and closeout of private) expenses?

5. It is interesting to note that the Commission has suggested that a Tax Credit be granted to workers for 1984 in the amount of the increase in Social Security taxes for that year. We would suggest that serious consideration be given to an amendment to the Medicare reimbursement rules to allow a gradual assumption of the substantial additional expense created by immediate coverage.

Beyond the budgetary concerns, the typical nonprofit hospital must continue to compete on a day to day basis with their State, County and Municipal counterparts for a core of highly skilled and mobile employees who may perceive coverage under Social Security as a substantial disadvantage to continued or new employment.

If the increase in net expense is not recoverable through Medicare then the only avenue is to pass it on to the commercial carriers. In calender year 1982, the general increase in the Consumer Price Index was 3.9 percent, whereas the increase in the Medical Consumer Price Index was approximately eleven percent (11%).

Finally, we are of the opinion that the Federal Government is acutely aware of the need to contain costs incurred in the health care industry. The combination of this desire along with the need to provide a degree of fairness in the proposed reform legislation leads us to the conclusion that your serious consideration of either grandfathering provision or recognition of the undue hardship be equitable adoption of the Federal Rule for the nonprofits is more than warranted.

I sincerely appreciate your patience and attention in allowing me to discuss these matters with you and should you have any questions I will be pleased to respond to them with all due haste.

Mr. THOMAS. Mr. Mahoney, I want to congratulate you. You are the first one to beat the clock in terms of the timing light.

Mr. MAHONEY. I took it seriously.

Mr. THOMAS. I will look over carefully what you had to say. I appreciate that.

Mr. Sheinkman, you indicated your committee seems to have serious objections over the pessimistic projections upon which the Commission's report was based. My difficulty with that is that in 1977 we had a tax increase which was going to take care of social security for the foreseeable future. Even under the most pessimistic forecasts we did not anticipate in fact what occurred. I fail to understand why you want a more optimistic forecast when the immediate past has indicated that the most pessimistic forecast wasn't pessimistic enough.

Mr. SHEINKMAN. I just feel, Mr. Thomas, that the indications are at least from all economists including your own economists out of the Congress here that the economy will be picking up in the next several years. If it does pick up and unemployment is reduced as I indicated in my testimony, each 1-percent reduction in unemployment will reduce the deficit by approximately $4 billion.

Now the goal of this administration is full employment, which has moved up gradually from the sixties from 4 to 6 percent. It now stands above 10 percent. The reduction of the number of unemployed over the next several years, which is the goal of this administration, would reduce the annual deficit by $16 billion a year.

That does not take into account productivity increases. That could help the economy generally.

Therefore, at this point in time I think using a projection of 3 instead of the 2B, the moderate pessimistic position was an attempt to really zero in on the problem in a most dramatic way. And while there is a problem, as we indicate in our report, it is a short-term problem that can be reconciled with the recommendations of the Commission.

Therefore, we are not as pessimistic as the Commission itself.

Mr. THOMAS. After going through it I think people tend to be a bit more cautious because all of the projections you just made could have been and in fact were made in the period 1977 in terms of the immediate future. It just seems to me that after we have been through it once, I would very much prefer to err on the high side rather than the low side, because I am going to do this once in my career on the Ways and Means Committee. I don't want to have to do it twice.

So if you allow us, I would prefer us erring on the low side. In fact, there are some of us that think that the best thing that the pessimistic probably was not pessimistic enough.

Mr. SHEINKMAN. I guess it is how you view it. You can bounce the ball into your own court, you know.

Mr. THOMAS. I understand that.

Mr. Kugler, you indicated that you thought social security was a sacred covenant and that therefore nothing should be changed. There should be no benefit reductions at all. It is my understanding that the increase in benefits tied to a cost-of-living increase is a very recent phenomenon, that for about 40 years there was no tie to a cost-of-living increase.

Was that a violation or approbation of the sacred contract before we locked ourselves to COLA? Or now that we are on to it we can't violate it? How does that work in terms of the sacred covenant?

Dr. KUGLER. Mr. Thomas, in 1935 when the social security system was envisaged we were in the state of a very deep depression. Certainly as the economy improved and we developed the concept of trying to maintain the buying power of those people who were retirees, it was a welcome addition. I don't see that now. We have reached the point where inflation is being substituted for by deflation to the extent it would justify a postponement of COLA.

Certainly not for those people who depend largely on social security, and who face the increasing costs of medical care and housing.

Mr. THOMAS. Thank you very much. The light is on. I do want to honor the time factor since I complimented you for it. But let me say how difficult it is for us when one side says we can't do anything on taxes, the other side says we can't do anything on benefits, and we have got to find some way to bring the two together.

We have a package which may not be perfect. But to the degree we can try to hold a very tenuous relationship together, we appreciate your understanding in terms of the very difficult decisions that we have to make.

Thank you very much, Mr. Chairman.

Mr. FOWLER. Mr. Archer?

Mr. ARCHER. No questions.

Mr. FOWLER. Mr. Jacobs.

Mr. **Jacobs**. I would like to explore with the panel just briefly this assertion that the pessimistic assumption is probably not pessimistic enough. Do you find that in any way a reflection on Reaganomics?

Mrs. **Glasse**. Certainly if we look at what has happened to the budget deficit we can recognize that one of the reasons we have this budget deficit is because of the high tax cuts that have been given, and that is attributed certainly to Reaganomics; in addition, priorities that have been established by this administration have not been directed to provide employment and other——

Mr. **Jacobs**. But I mean, as far as the future is concerned, sooner or later I assume the Laffer curve is going to take hold, isn't it? And that would be an optimistic development in the economy as I understand it, wouldn't it?

Dr. **Kugler**. How do you spell Laffer?

Mr. **Jacobs**. Laffer—I don't know just exactly. I just don't understand. I keep hearing that no one is pessmistic enough about the economy. Yet at the same time I hear all we need to do is wait. If we are just patient the Laffer curve will take hold. And once it takes hold, the deserts will bloom.

Mrs. **Glasse**. I wonder, sir, if I might comment. I don't think I feel qualified to answer specifically your question. But I do think that I am very much aware of what is happening to the lives of older Americans in this economy. While income has been going up very, very gradually, older people have had drastic increases in their expenditures.

We have established in this country a basic policy direction which is that we don't want to have people in poverty. And we have been successful in decreasing the numbers of older people in poverty. I think it would be very regrettable if we reversed that policy, which is what we are in danger of doing if we are not very careful in the way we approach this entire problem of social security.

Mr. **Jacobs**. Does anybody else have any faith in the Laffer curve?

Mr. **Sheinkman**. I am not an economist, but I know of no reputable economist who is following that; I don't care whether they are monetarists or antimonetarists. We were told in 1980 that we would be faced with a $60 billion deficit. That went to $90 billion, then to $110 billion. Now we are talking about a budget deficit of $170 billion.

I find it very hard to understand how we will solve our economic problems and reduce our deficit by zeroing in on the social security issue. At the same time we have no difficulty throwing huge sums of money at the military. The cost deficits that arise from that, I find a little hard to take. I also find it difficult to accept that at the same time you are providing for greater military expenditures, you also talk about cutting taxes and trying to balance the budget. It doesn't make sense putting these factors together.

The unfortunate thing is that the social security issue has become a victim of the current general policies.

Mr. **Jacobs**. I think we can all agree that if the Laffer curve does work, then the high road of the future is rather good for social security, we can develop an optimistic assumption about the financing of social security in the future, isn't that right? I know it is a big if. But if it does work, we ought to be pretty well off, shouldn't we?

Dr. KUGLER. Mr. Jacobs, I don't believe we should consider the Laffer curve or any other thing like the invisible hand as fetishes to just stand back and let things happen. I think the responsibility of the Congress to make sure that we have full employment in this economy so people could pay into social security.

Mr. JACOBS. So you would agree with Mr. Thomas that we ought to have a more pessimistic assumption than the Commission took, just because the Laffer curve probably wouldn't work?

Dr. KUGLER. Pessimism, optimism. I would be pessimistic if nothing is done to create this job program. I would be optimistic if it were created. So my emotions depend largely on what Congress is prepared to do to put America back to work.

Mr. JACOBS. Well, you can see why I am somewhat puzzled, can't you, when I hear that the Laffer curve will work, and then I hear it won't work. Sometimes from the same people.

Mr. FOWLER. The Chair must cut this off with an epilog that in the Wall Street Journal it was noted last week that Mr. Laffer's newsletter went out of business for lack of subscribers.

Mr. ARCHER. Mr. Chairman, may I take just a couple of minutes here? I did not intend to question. But there have been some statements made that I think need to be put in perspective. Does any one of you on this panel know what percent of the 1982 Federal budget—the only one that we have full figures on, because we don't know about 1983 or 1984 until the spending is all complete—went to the elderly?

Mrs. GLASSE. Are you including social security?

Mr. ARCHER. I am including all payments to the elderly that are a part of the Federal budget.

Mrs. GLASSE. But since the trust fund is not part of the Federal budget——

Mr. ARCHER. Yes, ma'am, it is part of the Federal budget.

Mrs. GLASSE. Excuse me, I'm sorry. But since the trust fund is not paid for generally out of general revenues, I think this is one of the issues——

Mr. ARCHER. No, but it is part of the budget and is included in all the budget figures.

Mrs. GLASSE. That is correct.

Mr. ARCHER. The question I am asking is what percent of the total Federal budget went to various programs for the elderly?

Mrs. GLASSE. Mr. Reagan is fond of saying 29 percent.

Mr. ARCHER. In 1982, the elderly received 38 percent of the total Federal budget. Those are supportable facts. Now I don't think anybody grudges this. But I think the country ought to understand the major effort that we are making for the elderly, because I have been led to believe by your testimony that the country is really not doing very much for the elderly.

National defense was 26 percent of the Federal budget. Aid to the elderly was 38 percent of the Federal budget in 1982.

Mr. SHEINKMAN. Mr. Archer, may I ask you a question, sir?

Mr. ARCHER. No, sir, because the purpose is for the inquiries to come from the Congress to get information for the record.

Mr. **Sheinkman**. If you remove social security——

Mr. **Archer**. I am sorry, I only have a limited amount of time.

Mr. **Sheinkman**. If you remove social security, sir, that deficit would not be as large.

Mr. **Archer**. I am in favor of removing social security from the Federal budget but it is not removed at this time. I would also like to ask you if you could state for the record what benefits will buy today in real purchasing power compared to 15 years ago. What social security benefits will buy today in real purchasing power compared to 15 years ago? Could you state that for the record for us?

Mrs. **Glasse**. I don't have that data with me. But I can say that we have reduced the number of those persons in poverty considerably in the last 15 years. At the same time there has been an increase in the number of elderly persons in poverty since 1975.

Mr. **Archer**. But that is not an answer to my question.

Mrs. **Glasse**. Well, it is the best I can do at this point, sir.

Mr. **Archer**. Well, it is not responsive. Not a one of you has come prepared to testify on this very basic issue, has any knowledge as to what benefits will buy today compared to 15 years ago? I can't believe that.

Mrs. **Glasse**. I can tell you what it will buy in 1984. Would you be interested in knowing that?

Mr. **Archer**. In 1984, I don't know how we can tell for sure what it will buy because we don't know what the conditions will be in 1984. But we know today what benefits will buy compared to 15 years ago. It is a matter of record. Previous witnesses have testified to this. And it is 52 percent more in real purchasing power than they would have bought 15 years ago. That is a matter of documented fact.

Mrs. **Glasse**. We have in our chart, sir, submitted in our testimony, what the average social security benefit will buy from 1981, through 1984.

Mr. **Archer**. That is not the question I asked, Mrs. Glasse. I asked you what benefits would buy today compared to 15 years ago, and I am really surprised that not a one of you has an answer to that. But the answer is a matter of record.

And that is important to understand because that is one of the reasons why social security has got the big problems economically today that it does. Thank you very much, Mr. Chairman.

Mr. **Fowler**. The gentleman from California.

Mr. **Matsui** [presiding]. Thank you.

I would like to thank all of you for your testimony this afternoon. I would like to ask just one question; one that I am more puzzled about than anything else. I don't think it is going to appear because the politics of it are such that it won't happen on the House side but may on the Senate side.

That is, to solve the long term problem we will probably not increase the age of retirement from 65 to 66 but I think the Senate will. I frankly, when I first discussed it and thought about it, didn't think raising the age from 65 to 66 would be that bad considering other alternatives, raising the tax from 10 to 15, cutting the benefit level and those kinds of things.

I heard testimony this morning from actuaries who talked about the fact that we will obviously live longer, that we are going to move to a service high tech based economy so we wouldn't have the heavy lifting we have in the industrial society today and frankly there will be more people in the work force if you do increase that age. That is what we may want in the year 2015.

Why is it most of the senior groups, some of your testimony demonstrates this, this is not a pointed question, it is one really for information; why is it that some of the senior groups are just adamantly against any kind of change from the 65 age limitation, even in the year 2015, whether we can become aware of that fact and will be able to plan for it.

Mr. SHEINKMAN. I would like to make two comments. I don't represent seniors. As I indicated, our group represents a broad cross section of business, labor, and the like. I can tell you from my own experience as a labor leader that we have a large number of women in our industries for example who work very hard, maintain two jobs in many cases.

One is running a household, the other a job in a factory. After years of carrying these two responsibilities, they have an option of getting out, they welcome that opportunity at 62. There is a longer term aspect—how early retirement affects young people. It is important for them to move into the future with some hope and projections of greater employment. One of the original conceptions of the social security system was to make room for some of the younger people to move into the system too.

There is also the concept of voluntarism which we feel is very strong. It is interesting that the studies indicate that many more people exercise early retirement because of the difficulties of the work place—sometimes strenuous in nature, as well as for personal reasons.

If I may say in conclusion, sir, when you are dealing with the year 2015, all we do know is what the demographics are going to be. When you start trying to plot the economy 3 years in advance, and you gentlemen have that problem on a yearly basis, it is difficult to project into that future. You must take into account the issue of fertility, the issue of mortality, the issue of productivity and the whole nature of our society if you wish to project where the country is going to be economically.

It is a hard thing to project the gross national product [GNP] into the year 2020, let alone project one aspect of the GNP at a time, which you folks have to do down here in Washington for the entire country.

Mr. MATSUI. If I may, are you suggesting we don't deal with the so-called long-term problem?

Mr. SHEINKMAN. Yes, that is what we are suggesting. In our testimony and the report of my committees, we deal with the short-term period which will take us through 1990. It is clear, everybody agrees, that from 1990 to at least 2015 there are going to be sufficient funds to pay social security payments. We are not recommending you sit back. But we should not look at the long-term problems in a time of crisis. A crisis period is not the time to try to project far down the road. We should set up a national commission under Presidential auspices that would start now to study this problem in preparation for dealing with it at a later date.

We are not suggesting throwing the reserves away. They should be in place. Everybody agrees on that score. But we should try to deal with that problem at a later date when we get a better idea of what our economy and our world is like. Nobody, for example, expected from 1972 to 1982 the shocks of high oil costs which discombobulated the industrial world and the general economies.

Nobody expected the decline we are experiencing this year as a result of the general worldwide recession. When you try to deal and project that far in advance, sir, in our judgment, at least in my judgment, you are dealing with a crystal ball. Nobody can look into that crystal ball and get the exact picture.

Dr. **Kugler**. May I comment, please?

Mr. **Matsui**. Yes.

Dr. **Kugler**. I think we have to look at the future. I think we have to see our economy becoming high technology with less and less of the smokestack feature. Yet we have to consider that we don't want people to be lacking employment.

I mean, they should have meaningful employment, and this kind of commission which my colleague, Mr. Sheinkman, proposed should be brought into being to take a look at some of the areas where we can be of service to America.

For example, the concept of lifelong education. The concept of helping our libraries, museums, parks, cultural institutions to make life richer for all. The concept of helping those who are sick and elderly. And I may say that my organization runs three old age nursing homes and infirmaries. And the trend for people well before they are 65 is for them to become disabled and sick and unable to work.

Now if they have to remain in that particular age bracket and cannot retire early enough, what we are doing is making it very difficult for them. They won't have the support of social security.

I also think we do have to take a look at the future. We have to be prepared to go outside of the usual restrictions and consider the concept that, if necessary, government on any level, must be the employer of last resort. And those areas which are not usually considered to be of productive enterprise in the usual sense.

Mr. **Mahoney**. I simply wanted to fall back on something I have said earlier on. There is another component here that isn't your immediate responsibility. But if there are to be any changes made in aging as far as breakout points, bear in mind that retirement is now at age 70 in the private sector, thanks to Congress.

And that in the public sector there is no retirement in most States, counties, or municipalities. What I am arguing for is that we have reached a point where there is going to be a different kind of economy. And you can style it any way you want, technocracy, or any way that you want; where the physical burden is going to be as great. What we are doing is discriminating against older people by saying that they have to retire at age 70, whether they want to or not.

Now the statistics that we have indicate that if we were to get through the Congress at this time legislation eliminating mandatory retirement, that only something on the order of 200.000 people in this country would take advantage of it now. We have some statistics from the American Medical Association which points out the trauma of retirement on the part of a good many people who don't want to retire.

The demographics are such that we are an aging population, and that people have taken better care of themselves, that the medical profession has done some wonderful things. And the consequence is going to be that we should be thinking about giving those people the opportunity to work.

We have done something to get rid, let's say not to get rid of, but to make an impact on sexism. We have made some impact on racism. We have made none on agism. I have listened very carefully to the remarks that were made by some members of the committee that so much is done for the elderly. The elderly have done so much for this country, too. It is a two-sided coin.

One of the things that we can do for the elderly is to give them that opportunity that they are being denied now. And it will have a very favorable impact on social security because they will be paying in and not taking out.

Thank you.

Ms. DE ARMAS. May I say a word?

Mr. FOWLER. We would be delighted.

Ms. DE ARMAS. One of the things as a woman, old, or elderly, that I think we need to modify in the United States is to teach the people how to get old. That old should not be a sin. It should be a blessing. And our philosophy has been to keep everybody young forever. And this is the trauma that the patients receive when they have to retire.

Many people lose even their mind. They have nervous breakdowns when they are forced to retire. And that is something that you as a planner of social security, you should increase that idea.

The importance of making the citizens know that retirement has a future, that it is not the end, to sit and wait for death. That there is a plan, a retraining for the people. You cannot do at 20 what you can do at 40, and you cannot do at 60 what you do at 70. And this is the process of education that we have forgotten to do.

All the shows are young people. Americans think you have a flashy car, a pretty woman, a sexy man. And that is a terrible mistake because every age has its beauty. And this is the problem we are feeling. We old citizens, we think, OK, they don't give us our COLA. What is the Government doing with the interest that that money is in the Treasury? The television say the other day, they have $11 million of checks that were sent to people that died. We think, and we say how can you determine $11 million? How they counted this? I could know very well the way they count those Hispanic speaking. They always make mistakes in the census.

So I suppose in spending the money, they do the same mistakes. I think the administration of social security has to be reduced, and use modern methods and more efficient methods. And you will solve a lot of economic problems. Thank you.

Mr. FOWLER. Thank you all very much on behalf of the subcommittee for your testimony and for your patience.

We have two more panels this afternoon.

I call now the Bowling Proprietors Association of America, Mr. Richard Davis, national committeeman. National Alliance of Senior Citizens, Inc., C. C. Clinkscales, national director. The International Federation of Professional and Technical Engineers, Rodney A. Bower, president. Liberty Lobby, Dr. Martin Larson, tax policy consultant. National Education Association, Linda Tarr-Whelan, director, Government relations.

You probably know the rules better than I do. We are here to seek your advice and hear your opinions. I simply ask you to try to summarize your testimony and observe the 5 minute call of the red light.

STATEMENT OF RICHARD DAVIS, NATIONAL COMMITTEEMAN, BOWLING PROPRIETORS ASSOCIATION OF AMERICA, ACCOMPANIED BY JAMES T. DEVINE, ASSISTANT LEGISLATIVE COUNSEL

Mr. DAVIS. Thank you.

I am Richard Davis and I am here as a representative of the Bowling Proprietors' Association of America. I am accompanied by James T. Devine, assistant legislative counsel for the association.

Our association is comprised of over 4,100 members with bowling centers located throughout the United States. The membership is made up largely of small independent businessmen who have to meet weekly payrolls, pay their taxes and all too frequtnly, struggle under an ever-increasing burden of Government regulations. We will try to present to the committee the small businessman's view of the current social security problems as seen from our perspective.

I might add, Mr. Chairman, that there does not seem to be much other testimony from small businessmen on today's agenda.

Our legislative committee, our officers, and our membership studied the problems of social security reform, out of necessity. It impacts upon us and upon our businesses in a very direct and a very substantial way. Every payday we have to meet our matching share of our employees' social security taxes. We have an abiding interest because, in the widespread discussions of double dipping and windfall benefits, there is a little concern made of the fact that the small businessman participates in neither. As a matter of fact, he is the one person who can be assured that he will never get out of the social security system what he puts into it.

The committee has had presented to it accurate figures that reflect an increase of 2,000 percent in the social security tax paid by the average worker between the years 1950 to 1980. Workers' wages have increased 490 percent during the same period. The small businessman's profit, most noticeably in the past 15 years, has lagged sorely behind these advances.

Our markets are not indexed to government taxes. When the social security tax is increased it comes out of our profit, during a period when the small businessman is fighting to stay even. In a market that is highly competitive, such as the sport and entertainment business, he all too frequently takes a loss.

Social security is a program that for some time has been living beyond its means, beyond the capability of the American worker and the small businessman to support it. We trust that when the committee sits down to draft its final bill, it will hearken back to the philosophy of the Roosevelt era and recall that when the bill was signed in 1935, it was to insure that a safety net was set up between the American working man and destitution. Other improvements in his well being were to come from supplementary retirement plans and from his own inititative.

The public should be disabused of the idea that this is a cradle to the grave program similar to those that have been attempted in other countries, and have come off poorly. We would recommend that many of the appendages that have been attached to the original program be stripped away, if the system is to survive.

We would further suggest to the committee that those administrative determinations that would lead to reinstituting this cluster of social benefits be severely curtailed. The capacity of a bureaucracy to expand legislation beyond the intent of the legislators has always been a threat to economy in Government. This factor has always been present in those branches of the executive departments where social consciousness exceeds fiscal reality.

We realize that there are social needs in our society that have to be met. We merely state that these needs should be considered as separate programs, distinctly described by congressional mandate and responsive to budget limitations, not placed as an uncontrollable fiscal burden upon the back of the social security system.

Our membership has reviewed the proposals set out in the report of the President's Commission on Social Security Reform and we endorse them as an excellent start on the road to reforming that system. They have preserved the fundamentals of the system and they have, I hope, raised the level of public understanding that one of our vital social systems is in deep trouble.

We do not oppose the acceleration of the payroll tax if such a measure is truly necessary to the life of the social security system. However, as we are small businessmen and parties directly in interest we would requets that determination be made as to whether this withdrawal of funds from the producer side of our economy would adversely affect the unemployment picture.

We have been unable to develop a clear picture as to whether the increased rates will have an adverse effect upon the hiring process and thus be counterproductive overall. We are certain, however, that the committee will examine this aspect at some length.

Our association endorses without reservation the proposal for universal coverage that was presented in the Commission's report. This type of coverage would produce significant sums of additional revenue for the system and would serve to eliminate the inequities of windfall benefits.

We would strongly support proposals for modifying the cost-of-living adjustments, the COLA. The present method of tying social security benefits to rises in the Consumer Price Index has been severely discredited and has probably been a major factor in bringing about our present fiscal problem.

As the abolition of indexing does not appear feasible at this time, it is suggested that a revised index with relevance to the economic status of retirees be developed as a substitute gage. Alternatively, if not in conjunction with a change in the method of computing the COLA's, we would support a temporary freeze as a method of improving the short-term financial status of the system. The inequities that the use of the CPI has authorized, favoring the retiree with benefits far out of the proportion to any increase in workers' wages, more than justify the freeze.

Raising the retirement age is another proposal that was discussed before the committee that has our support. Although we have noted some opposition to this proposal, we consider that it is a fair and equitable one. People are living longer and healthier lives and they already have both the capacity and the capabiilty of extending their working years. Simple justice precludes placing the support of these retirees upon the backs of our grandchildren.

There are other proposals in the Commission's report that we do not have time to discuss. I am sure that they are proposals of value which merit the consideration of this committee.

Mr. Chairman, on behalf of myself, Mr. Devine, and the Bowling Proprietor's Association of America, I wish to extend our appreciation for the opportunity to appear and testify before your committee.

Thank you.

Mr. Fowler. Thank you, Mr. Davis, very much.

Mr. Clinkscales.

STATEMENT OF C. C. CLINKSCALES III, NATIONAL DIRECTOR, NATIONAL ALLIANCE OF SENIOR CITIZENS, INC.

Mr. Clinkscales. The National Alliance of Senior Citizens, the Nation's second largest membership organization for the elderly, appreciates the opportunity to provide this committee its views on the changes necessary to save social security from its looming bankruptcy.

NASC strongly opposes the recommendations of the National Commission on Social Security Reform. Rather than address the basic flaws of the Nation's retirement supplement program, we believe the Commission has merely used higher taxes to throw money at the symptoms of the problem.

Levying higher and higher taxes on workers, imposing a means test on benefits, and creating back-door general revenue financing only add to the long-term insolvency of the present intergenerational transfer nature of the program.

In addition, adding Federal workers will only increase long-term insolvency, while using the old short-term answer of more payers into the system. Why continue with failed responses to the basic crisis in funding?

For decades Congress has raised taxes and liberalized benefits without concern for the impact on the system's future, the economy or the people it affects.

Instead of using social security revenues for wealth creation through private sector investment, as solvent pension plans do, our Government paid out the income to an ever-increasing number of recipients, many of whom did nothing to earn those benefits, and moved social security from a retirement supplement program to a semiwelfare transfer program.

While this has achieved the political election ends of many Congressmen, Senators, and Presidents, it has created a disgraceful situation where the retirement program savings of millions of working Americans are gone. If pension programs in the private sector were handled similarly, their officers would find themselves accountable in a court of law. Not so with social security.

It is too much to expect accountability from social security's demise, but NASC believes the action taken by this Congress and this President must not be more of the same irresponsible tax and spend we've had in social security for decades.

Like most of the organizations you've heard in this hearing, NASC has been here before discussing this same problem. In preparing for this testimony, I reviewed our previous statements before the committee and our recommendations.

In each, I've urged that action be taken immediately so that the crisis would not grow more grave, but never once has that happened.

When Chairman Pickle convened his 1981 hearing, there was hope for a real solution to the program growth problem by a phased-in approach to the more critical symptoms of the total problem.

As we all know, Congressman Pickle's brave stand for responsible action was dumped by those who worship at the alter of political expediency and opportunism.

When the President decided to name a Commission, all concerned hoped that body would be able to successfully grapple with the system for a meaningful long- and short-term reform.

NASC was therefore deeply disappointed that the Commission failed to even address the basic reforms necessary to assure the long-term solvency of our National retirement supplement program.

Instead, the Commission looked at tax hikes, benefit cuts, and benefit increases. There was no public, and we are to assume no private, consideration of necessary structural changes in social security.

From the comments made to the press, leaders of both Houses of Congress are prepared to pass the Commission recommendations as rapidly as possible, and fail to consider such necessary reforms as well.

NASC has a duty, however, to respectfully request that due consideration be given to alternative ideas, creative plans that demonstrate an understanding of the basic problems of social security as it has evolved since its inception.

NASC believes two major objectives must be the centerpiece of any real social security solution:

First, the earned benefits of today's and tomorrow's retirees must be preserved.

Second, working Americans must not be saddled with massive tax increases to fund a permanently bankrupt pay-as-you-go program which depends on future generations, yet unborn, for its revenues.

Unlike some other groups, NASC believes seniors and their Washington representatives must think of both the retired persons and younger persons as well.

Seniors in this Nation do not think like a bloc, they are individuals. Some think only of themselves, but most are as concerned about the impact of public policy, including social security, on their children and grandchildren as on themselves. Therefore, please do not be misled into believing seniors are a single-minded bloc of people with only their own future in mind.

NASC thus proposes a series of social security reforms which offer hope, confidence, and faith in the future of our Nation.

One, shift the disability program from social security, a retirement program, to the Department of Health and Human Services. Benefits would be paid at basic needs levels from the general tax fund, not from social security at today's lucrative level which encourages fraud and discourages returning to gainful employment.

Two, alter COLA's to accurately reflect senior living costs and not exceed the wage increases of workers whose taxes fund social security benefits.

Three, phase in an increase in the retirement age for both early—62—and normal—65—retirement to ages 65 and 68 respectively by adding 2 months to the retirement age per year beginning in 1985.

Four, keep Federal employees under their own pension program, but disallow all Federal pensioners from future social security. Refund their money.

Five, begin a mandatory tax-deferred savings program, an individual retirement account [IRA] for Americans under age 45 from which their retirement benefits would be paid. They would continue paying social security taxes on a declining scale until the present program has paid all benefits required.

Of all these proposals, the last one is the most urgent and the most promising for long-term prosperity for all Americans.

Mr. FOWLER. Mr. Clinkscales, in fairness to everybody I have got to cut you off. I followed your testimony very closely. You got your five recommendations in. So we will have to move on to the next witness.

Mr. CLINKSCALES. Thank you.

[The prepared statement follows:]

STATEMENT OF C. C. CLINKSCALES III, NATIONAL DIRECTOR, NATIONAL ALLIANCE OF SENIOR CITIZENS, INC.

The National Alliance of Senior Citizens—the nation's second largest membership organization for the elderly—appreciates the opportunity to provide this Committee its views on the changes necessary to save Social Security from its looming bankruptcy.

NASC strongly opposes the recommendations of the National Commission on Social Security Reform. Rather than address, the basic flaws of the nation's retirement supplement program, we believe the Commission has merely used higher taxes to throw money at the symptoms of the problem.

Levying higher and higher taxes on workers, imposing a means test on benefits and creating back door general revenue financing only add to the long-term insolvency of the present intergenerational transfer nature of the program.

In addition, adding federal workers will only increase long-term insolvency—while using the old short-term answer of more payers into the system. Why continue with failed reponses to the basic crisis in funding?

For decades Congress has raised taxes and liberalized benefits without concern for the impact on the system's future, the economy or the people it affects,

Instead of using Social Security revenues for wealth creation through private sector investment—as solvent pension plans do—our government paid out the income to an ever-increasing number of recipients, many of whom did nothing to earn those benefits, and moved Social Security from a retirement supplement program to a semi-welfare transfer program.

While this has achieved the political election ends of many Congressmen, Senators and Presidents, it has created a disgraceful situation where the retirement programs savings of millions of working Americans are gone. If pension programs in the priviate sector were handled similarly, their officers would find themselves accountable in a court of law. Not so with Social Security.

It is too much to expect accountability from Social Security's demise, but NASC believes the action taken by the Congress and this President must not be more of the same irresponsible tax and spend we've had in Social Security for decades.

Like most of the organizations you've heard in this hearing, NASC has been here before discussing this same problem. In preparing for this testimony, I reviewed our previous statements before the Committee and our recommendations.

In each, I've urged that action be taken immediately so that the crisis would not grow more grave, but never once has that happened.

When Chairman Pickle convened his 1981 hearing, there was hope for a real solution to the program growth problem by a phased-in approach to the more critical symptoms of the total problem.

As we all know, Congressman Pickle's brave stand for responsible action was dumped by those who worship at the alter of political expediency and opportunism.

When the President decided to name a Commission, all concerned hoped that body would be able to successfully grapple with the system for a meanful long- and short-term reform.

NASC was therefore deeply disappointed that the Commission failed to even address the basic reforms necessary to assure the long-term solvency of our national retirement supplement program.

Instead, the Commission looked at tax hikes, benefit cuts and benefit increases, There was no public—and we are to assume no private—consideration of necessary structural changes in Social Security.

From the comments made to the press, leaders of both Houses of Congress are prepared to pass the Commission recommendations as rapidly as possible—and fail to consider such necessary reforms as well.

NASC has a duty—however—to respectfully request that due consideration be given to alternative ideas—creative plans that demonstrate an understanding of the basic problems of Social Security as it has evolved since its inception.

NASC believes two major objectives most be the centerpiece of any real Social Security solution:

First, the earned benefits of today's and tomorrow's retirees must be preserved.

Second, working Americans must not be saddled with massive tax increases to fund a permanently bankrupt-pay-as-you-go—program which depends on future generations—yet unborn—for its revenues.

Unlike some other groups, NASC believes seniors and their Washington representatives must think of both the retired persons and younger persons as well.

Seniors in this Nation do not think like a bloc, they are individuals. Some think only of themselves, but most are as concerned about the impact of public policy—including Social Security—on their children and grandchildren as on themselves. Therefore, please do not be misled into believing seniors are a single-minded bloc of people with only their own future in mind.

NASC thus proposes a series of Social Security reforms which offer hope, confidence and faith in the future of our Nation.

1. Shift the Disability program from Social Security—A retirement program—to the Department of Health and Human Services. Benefits would be paid at basic needs levels from the general tax fund, not from Social Security at today's lucrative level which encourages fraud and discourages returning to gainful employment.
2. Alter COLAs (cost of living adjustments) to accurately reflect senior living costs and not exceed the wage increases of workers whose taxes fund Social Security benefits.
3. Phase-in an increase in the retirement age for both "early" (62) and "normal" (65) retirement to ages 65 and 68 respectively by adding two months to the retirement age per year beginning in 1985.
4. Keep Federal employees under their own pension program, but disallow all Federal pensioners from future Social Security benefit eligibility. All monies paid into Social Security by these affected persons would be refunded to them.
5. Begin a mandatory tax-deferred savings program—an Individual Retirement Account (IRA)—for Americans under age 45 from which their retirement benefits

would be paid. They would continue paying Social Security taxes on a declining scale until the present program has paid all benefits required.

Of all these proposals, the last one is the most urgent and the most promising for long-term prosperity for all Americans.

This IRA plan provides the most massive capital formation program in the nation's history. It creates an investment pool which will then be used for loans to businesses and individuals for new homes, new autos, new construction, new equipment and all other investment items which make wealth in our nation.

All Americans will then share in the real wealth of America. Each working person will own part of this nation, and should they pass away before they retire, they leave an estate to their heirs—not an empty promise unkept as we have under Social Security.

From their IRA donation, private insurance for catastrophe will be purchased so that small children can be protected from loss.

When you consider the loan pool created by such a program, you can realize that interest rates respond to market forces and such a loaning availability will bring interest rates down to assure an even more robust economy.

Many of us oppose mandatory savings plans by philosophy, but when we stop to consider the plight of the older American in the 1930's years of depression, we understand that planning for the rainy day cannot function as a rule for all persons, and such a plan is needed to help guarantee we never have older citizens starving in our nation.

NASC believes this plan carefully blends long-term security with economic success with short term resolutions to assure victory in the battle to save Social Security.

You have heard some solid plans for action on this problem during these hearings. I firmly believe NASC's plan is just such a plan, but it is not the only one.

In order to be honest with the American people and fair to all working people, I urge you not to act in haste to enact a program which will bring us back here in two or three years for more action.

Thank you for providing us with the opportunity to be here with you to express the viewpoints of our membership and leadership.

Mr. **Fowler**. International Federation of Professional and Technical Engineers, Mr. Bower.

STATEMENT OF RODNEY A. BOWER, PRESIDENT, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, AFL-CIO

Mr. **Bower**. Thank you. I am Rodney Bower and I am here today as president of the International Federation of Professional and Technical Engineers [IFPTE], AFL-CIO.

I am pleased to have the chance to call your attention to the diverse concerns our union has about the compromise solutions recommended by the bipartisan National Commission on Social Security Reform [NCSSR].

IFPTE represents 50,000 employees in the private, public, and Federal sectors. The combined sectors of our union bring together the sum total and variety of employee interests at stake in solving the problems of the social security system.

To the extent that the consensus recommendations affect IFPTE and other employees in public, private, and Federal industries, this union will be united in its support of reasonable legislation that strikes a fair balance of responsibility between employers, employees, and taxpayers.

We would be opposed, however, to legislation that opts for quick-fix solutions that would drastically undercut benefits of one employee group to provide only a meager portion of the funds needed to guarantee future benefits for other groups. It just doesn't make sense to deliberately create a new set of problems to resolve those on hand.

The seriousness of the system's present and future solvency calls for solutions based on a far firmer ground of financing principles than the quick-fix variety. IFPTE wholeheartedly supports the Commission recommendations that would solve the system's problems between now and 1990 through raising revenues.

Specifically, such solutions as rescheduling payroll taxes and the 50-percent tax of social security benefits on higher incomes are the most equitable and least destructive to beneficiaries. Such measures carry a fair distribution of worker and taxpayer responsibility and they go a long way to assure financial solvency of the social security system for the next 75 years.

I would like to focus on the Commission proposals that affect the public sector members of IFPTE. We will support legislation that would assist public employees in their rights to social security coverage.

As it now stands, the absolute right of public employees to remain in the social security system has been preempted because their employers have had the unilateral right to withdraw from the system.

The result is that public employees have lost valuable retirement, survivor, and disability protections when their public sector employers who had previously elected for coverage have exercised their option to withdraw from social security.

Public sector employers frequently opt to withdraw from the system because of a change in political regime, budgetary considerations, and purely subjective reasons based on preference for other plans. This should not continue, and IFPTE is firmly for legislation that would remove the option for public sector employers to withdraw from the social security system once they have elected for coverage.

Another area of concern to this union are reports that the committee's individual recommendations supported raising the retirement age from what most plans define as 65 years to age 66 or more. There are a number of reasons why raising retirement age would create inequity.

But to deal with one, our private sector members are frequently covered by pension plans that mesh with social security benefits. At the time these plans were negotiated, it involved employees trading off increasing wages and other benefits in return for the added measure of old age security that the pension plans represented as a supplement to social security.

Those negotiated trade offs, plus the proposed raise in retirement age, would result in a definite hardship for the employees who had originally meant to shore up old age security, and planned their lives accordingly.

Why would we want to enact legislation to keep people in the work force longer?

The familiar argument, of course, is that we are living longer. So what?

Does that provide a sound rationale for keeping people in the work force longer? It certainly would not expand opportunities for our young people to enter the work force.

We must take into account the unquestionable impact high technology is having even now on the older workers. Chances of older workers remaining in their jobs until they can make it to the present retirement age of 65 are narrowing by the day.

Older workers will be confronted with an easily predictable rationale that they are too old to retrain. But adding another year on to the retirement age will also mean that these older workers are 1 more year away from retirement and 1 more year into unemployment and/or welfare rolls.

Mr. FOWLER. Thank you, Mr. Bower.

[The prepared statement follows:]

STATEMENT OF THE INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, AFL-CIO

Mr. Chairman, my name is Rodney A. Bower and I am here today as President of the International Federation of Professional and Technical Engineers (IFPTE), AFL-CIO. I am pleased to have the chance to call your attention to the diverse concerns our Union has about the compromise solutions recommended by the bi-partisan National Commission on Social Security Reform (NCSSR).

IFPTE represents 5,000 employees in the private, public and federal sectors. The combined sectors of our Union being together the sum total and variety of employee interests at stake in solving the problems of the Social Security System. To the extent that the consensus recommendations affect IFPTE and other employees in public, private, and federal industries, THIS Union will be united in its support of reasonable legislation that strikes a fair balance of responsibility between employers, employees and taxpayers. We would be opposed, however, to legislation that opts for "quick-fix" solutions that would drastically undercut benefits of one employee group to provide only a meager portion of the funds needed to guarantee future benefits for other groups. It just doesn't make sense to deliberately create a new set of problems to resolve those on hand. The seriousness of the system's present and future solvency calls for solutions based on a far firmer ground of financing principles than the "quick-fix" variety. And, I might add, those financing principles should also be clearly designed to avoid long Congressional political debate and the ultimate risk of major benefit cuts.

To that end, IFPTE wholeheartedly supports the Commission recommendations that would solve the system's problems between now and 1990 through raising revenues. Specifically, such solutions as re-scheduling payroll taxes and the 50% tax of Social Security benefits on higher incomes, are the most equitable and least destructive to beneficiaries. Such measures carry a fair distribution of worker and taxpayer responsibility and they go a long way to assure financial solvency to the Social Security System for the next seventy-five (75) years. Additionally, the increased-revenue-proposals have already withstood one highly important political test—emerging, as they did, out of as wide a range of political and economic beliefs as are represented among the fifteen (15) members of the National Committee on Social Security Reform. That should give us a clue about how such proposals would hold up in Congress.

Another Committee recommendation that carried both the weight of consensus agreement and less risk of more serious benefit cuts, is the six-month delay in the annual cost-of-living adjustment. Again, not a perfect solution, but one that would at least see the poorest Social Security beneficiaries compensated with increases in their Supplemental Security Income (SSI) benefits. Compensation of the poor along with the lower rate of growth in the 1982 Consumer Price Index translates into far less decrease of benefits than the more inequitable cuts that some have proposed. The increase would have been the lowest of many years due to the CPI factor, and it helps to solve the deficit for 1983. In fact, the relatively small cut in benefits is somewhat offset by the fact that Social Security subscribers could once again count on a secure future and present.

All of these measures contrast sharply with "quick-fix" solutions which would rob a particular employee group of promised pension benefits to finance other groups. But before I go into more specific reasons why our Union is opposed to the Committee proposal that recommends mandatory coverage of new federal emloyees, I would like to focus on the Commission proposals that affect the public and private sector employees of IFPTE.

Like Mr. Kirkland indicated in the bi-partisan consensus report—and in testimony before you, Mr. Chairman, and this committee, IFPTE, too, would support legislation that would greatly assist public employees to establish their right to Social Security coverage. As it stands now, the absolute right of public employees to remain in the Social Security System has been pre-empted because their employers have had the unilateral right to withdraw from the system. The result is that public employees have lost valuable retirement, survivor, and disability protections when their public sector employers who had previously elected for coverage have exercised their option to withdraw from Social Security. Public sector employers frequently opt to withdraw from the system because of a change in political regime, budgetary considerations, and purely subjective reasons based on preference for other plans. This should not continue, and IFPTE is firmly for legislation that would remove the option for public sector employers to withdraw from the Social Security System once they have elected for coverage. Such options on the part of the employer leave the public sector employee's right to retirement planning in limbo—and subject to too many decisions that may bear no relationship to family and individual needs of employees. To rectify the inequities that public employees have been dealt in the past, public employers who have withdrawn from the system should be permitted to reenter it under new legislation because present law does not allow for that. New legislation, initially recommended by Mr. Kirkland, should specify a way for workers or their unions to initiate an action designed for employer re-entry.

Another area of great concern to the Union are reports that the Committee's individual recommendations supported raising the retirement age from what most plans define as 65 years to age 66. We have a number of reasons why raising retirement age would create inequity. But, to deal with one, our private sector members are frequently covered by pension plans that mesh with Social Security benefits. At the time these plans were negotiated, it involved employees trading-off increased wages and other benefits in return for the added measure of old age security that the pension plans represented as a supplement to Social Security. Those negotiated trade-offs plus the proposed raise in retirement age would result in a definite hardship for the employees who had originally meant to shore up old age security, and planned their lives accordingly. The proposed raise in retirement age could affect private sector employees covered by so-called "30-years and out" pension plans in any number of negative ways: if, for example, a private pension plan offered $500 for an eligible retiree at age 65 and Social Security offered an equal amount at the same age, the employee would lose $500 per month for one year if the Social Security retirement age were raised to 66 or more instead of the current age of 65. But, if the private sector employer and employee negotiated a supplemental payment to make up the loss of Social Security if the retirement age was raised to 66 or more, the supplemental would result in added costs to the private sector employer. In addition, the majority of such plans now in effect were not negotiated with an eye to the retirement age raising, so a negotiated supplemental would apply only to those persons in the workforce who will have bargained after the retirement age was raised. Those who had not will be stuck with half the benefits they planned for—and depending on other economic factors—may have to apply for welfare benefits. The latter would result in hardship for the retiree—and extra costs to government.

But to point to an equally disturbing factor, even if both private pension plans and Social Security benefits were geared to a 66 year old retirement age, why do we want to enact legislation to keep people in the workforce longer? The familiar argument is, of course, that we are living longer. So what? Does that provide a sound rationale for keeping people in the work force longer? It certainly would not expand opportunities for our young people to enter the work force. That rationale does not take into account the unquestionable impact that high technology is having even now on older workers. And, the chances of older workers remaining in their jobs until they can make it to the present retirement age of 65 are narrowing by the day. In a few years, the present trends indicate that the welfare rolls will be even more overloaded by older persons than they are now. The reason: older workers faced with high technology's ever-increasing impact on jobs will be confronted with an easily predictable rationale that they are "too old to train." But, adding another year on the retirement age will also mean that these older workers are one more year away from retirement and one more year into unemployment and/or welfare rolls.

We are strongly opposed to the mandatory coverage of federal employees by Social Security. We and our members perceive the proposals to cover federal employees as a most serious attack on fair and appropriate labor standards. The right of a federal employee—or any other employee—to a liveable retirement should be inviolable. It would be truly shameful if the federal government did not provide that for its employees! The importance of the current Civil Service Retirement System to the federal employee is even more pronounced in view of the total federal employee compensation package. Presidents and Congresses have repeatedly limited increases in federal pay to the point where a federal employee now earns about 20 percent less than an employee in a similar position in the private sector. In the last few years, federal employees and retirees have seen numerous reductions in benefits—in health insurance, retiree COLA's, increased payroll taxes, and more.

Mandatory Social Security coverage of federal employees will not help any of those we represent—in any sector. The revenues which new federal employees could bring to the Social Security system would be less than the amount of increased Social Security revenues which would be realized by a one percent (1%) decrease in the rate of unemployment. Any short-term increase in Social Security revenues by this proposal would be offset by other costs to the federal government and taxpayers. Because Civil Service Retirement benefits are taxable and Social Security payments are not, mandatory Social Security coverage would result in a loss of 2 billion dollars a year in tax revenues. In addition, any legislation that cuts-off new entrants into the Civil Service Retirement System will result in that system being, in about twenty (20) years, without any funds to pay those retirees who will still be eligible for Civil Service Retirement benefits. To meet the outstanding obligation to these retirees, the federal government will have to find at least 185 billion dollars to bail-out the Civil Service Retirement System's liabilities.

Over the long-term, the influx of new contributors to Social Security, without fail, turns in a few years into increased liabilities on the system. It is not reasonable to propose a solution which postpones and possibly magnifies the existing problems for a later time.

It has become popular to view federal and public employees as fair game for all political expedience. The recommendation of the National Commission for Social Security Reform for mandatory Social Security coverage of federal and postal workers places us on the verge of plunging into an incomplete, inadequate resolution of the issue. There have been no acceptable legislative proposals for a "supplemental" retirement plan for federal and postal employees above and beyond the Social Security income floor. The Commission, in making its recommendation, "believes" that a supplemental program is part of the solution. But no such program exists—no viable proposal has been made—and we cannot rush headlong into terminating a sound Civil Service Retirement program for the sake of political expedience.

Many of the installations where we represent federal employees—for example, at Navy shipyards and NASA Centers—have difficulty competing for the highly trained employees needed to accomplish the missions of the Agencies. Pay and benefits in the engineering and technical fields is better in the private sector than the federal sector to a greater extent than the 20 percent pay comparability lag for federal employees indicates. The Agencies and the Office of Personnel Management have recognized this recruitment problem and have offered "special pay rates" to certain engineering and technical employees to address the issue.

Nevertheless, the "special pay rates" do not meet private wages. The Civil Service Retirement has been a key incentive for recruiting and retaining qualified employees.

We urge the Congress to act prudently and with dispatch to resolve Social Security's financing problems. The report of the National Commission on Social Security Reform offers a generally sound package. However, proposals to increase the retirement age and to require coverage of federal and postal workers create new problems, not solutions.

STATEMENT OF DR. MARTIN A. LARSON, TAX POLICY CONSULTANT, LIBERTY LOBBY

Dr. Larson. I am Martin Larson. I have been a consultant for Liberty Lobby for quite a number of years and have written extensively and many times on tax questions.

I have studied the various proposals now being proposed in order to save the floundering social security system, and I find myself basically in disagreement with all of them, especially the proposal to place a great many more people on social security in order to collect contributions from them.

This would help for a little while, but actually it would create enormous additional liabilities to be paid in the future. So instead of solving the problem, all it would do would be to make it a great deal worse in the long run.

For many years I have been advocating that the whole social security system should be gradually phased out in favor of a mandatory, private trust system similar to the IRA, the individual retirement systems, and the Keogh accounts. And I believe that all the persons in the country should gradually be transferred to private trust accounts of this sort.

Furthermore, I believe conclusively and I believe strongly that this could be done without any injury to those who are already on social security or who are about to retire in the near future.

Now, I advocate that those who are on social security now and who want to transfer to a private IRA account or something similar should be repaid the actual amount of money that they have invested at the present time in the system on condition, one, that they invest this amount in their own permanent retirement account, and that they continue until time of retirement to contribute to that kind of an account.

I think that all self-employed individuals in the United States should be permitted to do the same thing on condition that they invest their refund in their own permanent retirement account and continue to make payments into their own Keogh retirement accounts.

Now, the advantages of doing this are so many and so great that it seems unnecessary for me even to detail them to any individual or to any committee. But, first of all, we must understand that if payments were made into an individual retirement account at the present rate of interest, if an individual were to pay $125 a month, that is $1,500 a year at 8 percent into his own retirement account, he would then have a corpus of $475,000 at the end of 40 years.

He could then retire with an income of more than $3,000 a month without even touching the principle of corpus of his trust.

If he were to accept the money during his expectancy, he could draw somewhere between $4,000 and $5,000 thousand a month. That is one of the principal reasons why an individual trust account would be a great advantage.

By the way, I want to say that the establishment of IRA accounts and the Keogh accounts was a great step in progress and a step in the right direction, and this should be the system which should be followed by all the people in the United States.

Now, some of the other great advantages of this would be that the employers would no longer be required to make any contribution to social security. That would reduce drastically the cost of all goods and services and would be a great advantage to all the people in the country. Remember that in a few years there would be at least $1 trillion invested in these social security or these trust accounts, and the IRA or Keogh accounts.

Now, the income from all of this investment would be credited to the retirement accounts of all the older people in the United States, and furthermore this money would then go to them instead of to financiers to create credit on their books by what is known as fractional reserve banking, all of which could ultimately be phased out in favor of the money available through those accounts.

Remember that all interest would accrue to millions of elderly people who could then retire in comfort and security and with a great deal of honor. And they would no longer, and this I consider the most important of all advantages that would accrue from the system that I have been advocating. It would not cost the younger generation anything at all.

The cost to the younger people now is becoming so heavy and so great that it is a burden almost beyond understanding, and my belief is that sooner or later they are going to rebel. I don't understand how they are going to be able to meet their expenses with all the income taxes they have to pay, the enormous interest rates that are due on mortgages and all the other expenses which they have to meet in order to establish families and to pay for their homes.

Well, the question that arises, how could this be financed? How could we be able to take care of the older people? Well, I say, first of all, that the problem is much more political than it is economical. It could be done and there are various things that could easily be done.

Well, for example, as these trust accounts increase first to $1 trillion then to $2 trillion, say at interest rates of 8 or 9 or 10 percent the Government could impose a reasonable tax upon all of their income and this would help to pay the cost of financing the retirement system of those who are already on social security. Because by no means should the Government consider reducing their obligations to those who are already retired. On the other hand, they should consider also the importance of reducing the burden upon the younger generations.

I thank you, gentlemen, for the opportunity of appearing.

Mr. Fowler. I will give you another chance. I have some questions for the complete panel.

[The prepared statement follows:]

STATEMENT OF DR. MARTIN A. LARSON, TAX POLICY CONSULTANT, LIBERTY LOBBY

Mr. Chairman and Members of the Committee: I am Martin A. Larson, tax policy consultant for Liberty Lobby. I appreciate this opportunity to appear today and present the views of our more than 30,000-member Board of Policy, as well as approximately a million readers of our weekly newspaper, The Spotlight.

I. INTRODUCTION

It is now about 12 years since I began saying that the Social Security (SS) system would collapse in due course unless drastic remedies were applied. I stated that although it had begun as a purring kitten, it would, in time, become a ravaging tiger; that the $30 a year maximum contribution of the employee would have to be increased progressively until it became an overwhelming burden; that it was wasteful and uneconomical; that it should be phased out as rapidly and equitably as possible without injury to those already, or about to be, retired.

I also offered a detailed and practical plan by which this could be accomplished; and it was my opinion that the problem was political rather than economic. I also ventured to say that the federal government had no constitutional authority to establish such a system in the first place.

My solution was then, and still is, that SS should be replaced by a Universal Trust Plan, in which every person earning an income will contribute to his own retirement account. In due course it would pay far more than SS can possibly hope to disburse.

We should note that the present system is not insurance in any true sense; it is neither funded nor vested; contributors have no equity on which they can borrow; in case of death, the obligation of the system to the person who dies also expires; in fact, there is no certain economic guarantee that future benefits can be paid in full.

II. IN A STATE OF CRISIS

That the system is in deep trouble is now generally admitted. It became bankrupt in October, 1982, when its reserves were exhausted and disbursements exceeded income by more than $1 billion a month. It was therefore forced to "borrow" from other funds, which will also soon be without money. This is in spite of the fact the system in 1982 collected a maximum of $4,343 from the employee and employer as a levy on a single median job. This amount is scheduled to increase to more than $6,000 in a few years, which, even so, may be insufficient. And remember that SS deficits, like all those incurred by the federal government, will add fuel to the raging fires of inflation, which is exercising such a devastating effect upon our people and economy.

III. ERRONEOUS FINANCING

Nothing seems more obvious to me than that the reserve trust funds held by federal agencies should have been, and should be, invested at current rates of interest in private enterprise, as they are, for example, in Singapore. Instead, all such funds have simply been appropriated and spent by the government, which has given the Agency federal securities in return, which have increased the national debt and thus placed an additional and perpetual burden upon the taxpayers of this country.

In 1950, about 15 contributed to the system for each recipient—whose benefits were very modest. As a result, the reserve surplus continued to increase. In 1970, this amounted to $41,454,000,000 (1971 Statistical Abstract, p. 283). In 1976, a total federal trust funds were $142,535,000,000, of which $48,153,000,000 was in the SS division (1976 SA p. 235).

However, in the following years, this reserve dwindled rapidly because of increased payments and the growing ratio of recipients compared to contributors. In 1982, there were only three contributors for each recipient, and this development continues in the same direction.

Now, had these funds been invested at current rates of interest in private enterprise; and had the federal government not caused inflation by deficit spending, there would have been no need to increase the SS payments as they have been; the system would be in sound condition now; and the need for enormous increases in tax levies upon the labor force would not have resulted.

IV. SUGGESTED PALLIATIVES

The federal government has maneuvered itself into an unenviable position, resulting from the fact that political expediency has taken the place of statemanship. Deficit spending has created an inflation destructive to a point where savings, and retirement income therefrom, have been drastically reduced in real value; thus, in order to help retirees survive, attempts have been made to make SS benefits keep pace with this depreciation of the currency; but this in no way compensates for the dreadful losses resulting from the reduced value of other intangibles. In order to meet the demands of millions of well-organized elders possessing enormous voting power, the payments have been progressively increased. But to do so, the amounts levied upon production have risen even more rapidly from a maximum of $60 per job in 1937-50 to $4,342 in 1982, with no end in sight to the possible inflationary spiral.

Obviously something must be done. Some suggest that eligible age of retirement be increased to 66 or even 68. but this merely means that from 25 to 30 percent of all those who pay into the system will die before the time to receive benefits arrives. What a terrible injustice it will be for a person to invest enough money to create a trust corpus of perhaps $1 million during a 40 to 45-year period and have nothing at all either for himself or his heirs! But this is what will happen to an untold number of Americans under this proposal.

Others propose that we delay cost-of-living increases. This, of course, will depress more millions into their morass of economic despondence. Still others hold that we must increase the base on which levies are made and the rate of exaction even more rapidly than had been intended; so that, before very long, it may be necessary for every median job to contribute perhaps $8,000 or even $10,000 to the system annually, if it is to pay its benefits and remain solvent.

It is now proposed that those retirees who have a certain amount of other income be taxed on their SS benefits; and this in spite of the fact that employee contributions to the system are not tax-deductible when made; and the fact that some, because of loopholes in the Internal Revenue Code, have multi-million dollar incomes wholly exempt from every kind of taxation.

V. DEFECTIONS FROM THE SYSTEM

We should note that there are millions not enrolled in the SS program. Passive income is not subject to SS contributions. Employees of churches and other charities, such as hospitals, are not enrolled unless they choose to be; several million federal employees have a far more generous retirement plan, largely funded by the general taxpayers; and employees of other governmental entities can leave the system by giving a two-year notice of intent to leave.

And they have been doing so, in droves. Los Angeles County, with 55,000 employees, has just defected—which will give them a far better form of retirement. Incidentally, this will save the taxpayers $36 million a year, since the county government will make no contribution to the private pension plan. There are, altogether, about 12.5 million state and local government employees in the U.S., of whom one-third are not enrolled in SS. Thus 3.1 million of these have their own form of private retirement. Of the remaining 9.4 million, many are withdrawing as rapidly as they can.

Incidentally, one of the proposals to shore up the system is to force future federal employees to enter it—a step they bitterly oppose for obvious reasons. It is also suggested that all other governmental employees be forced to enroll. True, this would help temporarily, but the ultimate results will be the reverse of what is necessary for a real solution. Instead of placing more people into the system and thus enormously increasing the future cost of operation, we should be reducing their number as rapidly as expedient so that some day the problem can be resolved in an equitable manner.

VI. MY PROPOSAL

My suggestions are quite simple. I believe the entire system should be phased out as soon as possible. Since the Individual and Keogh Retirement Accounts are steps in the right direction, I believe that every worker and self-employed person who will contribute between 5 and 10 percent of his income to an irrevocable and mandatory retirement plan until the age of 60 or 65 until disability supervenes, should be excused from SS.

I believe that those who leave should be refunded their actual investment—plus that of their employers—on condition that such sums be placed in permanent trust accounts. Thus, all governmental obligation would terminate.

I believe that all self-employed persons should be encouraged to take this step as soon as convenient. Furthermore, all funds held in trust for federal employees should be invested in private enterprise; and the taxpayers in general should not be required to make any contribution for their benefit, in addition to the generous salaries they receive.

The fact that Singapore, for example, has been able to accomplish its economic miracle is due, at least in part, to the manner in which it handles the funds placed into the retirement system.

A number of prominent Americans have made proposals which, to some extent, are in consonance with my suggestions. Among these are Milton Friedman, and William Simon, former Secretary of the Treasury. A syndicated colunm by James Kilpatrick published Dec. 4, 1982 gave full support to a proposal virtually identical with mine, advanced by the National Taxpayers Legal Fund, a Washington-based organization, the gist of which is that the present system should be phased out over a period of 30 or 40 years; and that all workers and all self-employed be excused from SS on condition that they establish their own private programs similar to IRA or Keogh accounts.

VII. HOW TO MEET OBLIGATIONS

Of course, one of the first questions that arises is this: How will payments be made to present and future retirees as contributions from the working force decline? I have said before, and I repeat, that the problem is more political than economic and that it can be solved without injustice to anyone.

First, as the private trust funds increase until they total perhaps 35 million with reserves of at least $1 trillion, a reasonable tax on this will help substantially to defray the cost of the declining system. At 8 percent, the sum just mentioned would produce $80 billion; a 25 percent tax on this—during the period of transition—would be $20 billion. As the total reserves increase to $3 trillion, the potential tax could be $60 billion.

The government could sell its power-grid for an estimated $200 billion—which would not only reduce federal deficits but also give the states a new and important base for real-estate taxation. Also, assuredly, the government could sell some of the 765 million acres of land which it withheld illegally from state ownership.

It could also save $100 billion a year by abolishing the Departments of Energy and Education and no longer making unnecessary grants of multiform variety. Furthermore, by abolishing some of its own taxes, it could reduce its cost of operation by perhaps $100 billion a year.

Finally, as a last resort, it could issue bonds, the repayment of which would be guaranteed by taxes imposed upon the growing private trust-fund revenues. In a few years, the payments to retirees would decline drastically, and in time, become negligible.

VIII. ADVANTAGES OF THE UNIVERSAL TRUST PLAN

The advantages of making the change are so obvious that is seems unnecessary to explain them in detail. But consider this: if a person pays only $125 a month at 6 percent into his own trust, this will grow in 40 years to $475,000. If he contributes $2,000 a year at 10 percent for 25 years, this $50,000 investment will grow to $234,962.25. If he invests this amount for the same number of years at 12 percent, the corpus of the trust will grow to $266,668. In 40 years, the sum will total no less than $1,534,183. Thus the magic power of interest will cause an investment of $80,000 to increase almost 20-fold.

A trust with a corpus of $250,000 at 8 percent will pay $2,389.15 a month for 15 years, or $1,929.55 for 25. One with a corpus of $1 million would, of course, pay four times these amounts. Please note again, that every median job in 1982 was required to contribute more than $4,300 to SS, an amount which, at 12 percent in 40 years, would have created a corpus well exceeding $3 million.

Another tremendous advantage would be the fact that employers—principally corporations and governmental agencies—would probably not make any contributions to their employees' retirement plans. This would reduce the cost of all goods and services substantially and save enormous amounts in taxation.

An even greater advantage would be that in due course these trust funds—all administered by qualified financial institutions—would make $1 trillion and then $3 trillion available at reasonable interest for the construction of homes, shopping centers, factories, office buildings, etc.—in fact everything needed for a superior civilization. The resulting prosperity would be phenomenal and would continue indefinitely. The interest would be credited to the accounts of millions of Americans who, in time, would retire in security and opulence; and the longer their lives, the more honored they would be. However, those who die before reaching the age of retirement will leave substantial bequests for their heirs and devisees. And, in passing, let us note that should a cure for cancer be found, and should the incidence of heart failure be much reduced, the resulting longevity would certainly spell utter ruin for SS.

However, it seems to me that by far the greatest advantage is the fact that the terrible burdens now placed upon producers—especially the young trying to raise families and pay for homes—would be removed completely. The elderly would no longer be looked upon with resentment because of their cost to the younger generations; all would become self-supporting, as they should be, and would be, in any equitable social and economic order.

IX. SUMMATION

Other important changes are called for in the structure and operation of the federal government, but the replacement of SS by a Universal Trust Plan would be of such benefit and magnitude as to constitute a constructive revolution of the highest order.

Of course, there will still be people in need of welfare, as there always have been, who have made no provision of their own care. However, a considerable portion of payments are even now funded by the general budget, so that this would entail no problem whatever. My own opinion is that all such benefits should be handled and financed by local governments and authorities, which could more easily eliminate waste and discrimination and accomplish the same objectives more equitably at for lower cost.

It has long been my opinion that the proposals advanced by the National Taxpayers Legal Fund and Liberty Lobby, whether we like them or not, must, to a greater or lesser degree, be adapted; for ultimately they will be demanded by the producers and will become an economic and political necessity. And the sooner we adopt such a plan, in part or in whole, the less will be the pain, the cost, and the difficulties involved.

Finally, let me say that my proposals are based upon the belief that the federal government must, and will, before too long, operate without deficits and the resulting inflation. Otherwise, the future of this nation is indeed terrifying to contemplate.

Thank you again for the opportunity to appear today and present our views.

Mr. Fowler. The National Education Association.

STATEMENT OF LINDA TARR-WHELAN, DIRECTOR, GOVERNMENT RELATIONS, NATIONAL EDUCATION ASSOCIATION

Ms. Tarr-Whelan. Thank you, Mr. Chairman.

I am Linda Tarr-Whelan for the National Education Association. We represent over 1 million teachers and other education employees in schools and universities across the United States. We thank you for the opportunity to testify today and share with you the recognition of an urgent need to take legislative action to restore the solvency of the Old Age and Survivors Insurance Trust Fund and the credibility in the social security system.

We accept with some reluctance the recommendations of the National Commission on Social Security Reform. We cannot, however, support the proposal to cover new Federal workers because this drastic change in policy puts the civil service retirement system at risk and threatens future benefits for retirees. We propose that Congress defer that plan until a specific proposal for restructuring the Federal retirment plan can be evaluated by Federal workers in the hearings process.

However, instead of covering new Federal workers, NEA proposes that the taxable earnings ceiling for employers be removed. This plan would generate $40 billion in new revenue between 1983 and 1990. Today employers pay less than their full 50-percent share of the payroll tax because they can deduct such taxes as a business expense. This rebate to employers is borne by the workers whose individual taxes provide more than 70 percent of all Federal revenue.

It is only fair that employers be required to contribute their fair share to the maintenance of the social security system. This new revenue would exceed that of adding Federal new hires and could generate equity in the program. We have several other concerns which I wish to raise today and are covered in our full statement.

First, delaying payment of the 1983 cost-of-living adjustment to January 1984 will hurt low-income recipients. We ask this committee to particularly examine whether increasing the disregard in computing the SSI benefits will help compensate for the loss of income.

Second, the failsafe mechanism for COLA, changing the computation to the lower of price or wage increases when the trust fund reserves fall below 20 percent, could have a devastating effect on low-income beneficiaries in a period of high inflation.

The poor must be protected against a catastrophic loss of benefits through a quick catch-up formula. It might be instructive for the committee to consider what would have happened to those low-income persons in a year like 1980 when wages increased about 5 percent and the CPI increased 14 percent.

We believe that the proposal to accelerate the scheduled payroll tax increase is fair, but ask that a refundable tax credit be provided in 1988 and subsequent years to protect low-income beneficiaries.

We applaud the recommendations to maintain the current retirement age, to add public members to the board of trustees, and we welcome the proposals which address inequities in the treatment of women, widowers, and divorced persons. However, in the interest of an equitable system as well as a solvent system we recomend the adoption in 1990 of earnings-sharing legislation to correct the most glaring disparities in the treatment of women under social security.

Congress passed legislation during the lameduck session to extend the exemption of women from the harsh treatment of the Government pension offset. This offset unfairly reduces or wipes out benefits that public employees should be eligible to receive, and we propose that it be repealed without further delay.

We also ask that Congress place a high priority on restoring the student benefit program with appropriate changes to prevent duplication of benefits. The 1981 Budget Reconciliation Act phased out the social security benefit that has allowed hundreds of thousands of children—the numbers are about 900,000—of elderly, disabled, or widowed workers to complete their education. This has been done at the same time Congress made drastic reductions in student assistance programs as administered by the education department.

In summary, Mr. Chairman, we support the recommendations of the panel with the exception of requesting a deferral of the carriage of newly hired Federal employees. We have suggested a Federal funding source and urge the adoption of the measures in the panel's report.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF THE NATIONAL EDUCATION ASSOCIATION

Mr. Chairman and Members of the Committee: My name is Linda Tarr-Whelan. I am director of Government Relations for the National Education Association, which represents some 1,700,000 teachers and other education personnel in the nation's schools, colleges, and universities. Our members, like all Americans, are deeply concened about the soundness, durability, fairness, and predictability of the Social Security system, its benefits and financing structure. Understanding the need for immediate solutions to a growing financing problem with the Old Age and Survivors' Insurance trust fund, we accept with some reluctance the recommendations of the National Commission on Social Security Reform, but in one major area we must strongly disagree with the Commission: its proposal to cover new federal employees. We want you to know of our concerns in this area and in several others in the Commission report.

First, we are aware that the financial troubles the system faces did not occur overnight. When Congress in 1972 enacted provisions that keyed benefits to increases in prices rather than wages, it did so to protect the beneficiaries from unfair loss of benefits due to inflation. We believe this was in the best interests of a dependent population that could not otherwise protect itself from the vagaries of economic performance. No one could have foreseen at the time the extraordinary inflationary spiral that occurred during the ensuing decade. Historically, price increases have been of smaller magnitude than wage increases, but the skyrocketing of oil prices in the mid-seventies precipitated an enormous disruption of the economy which drained the normally healthy reserves of Social Security. And the corrective measures taken in the 1977 amendments proved to be inadequate as inflation moved into double digits.

We believe that the target of 150 to 200 billion dollars for recovery of the system, as adopted by the Commission, is a prudent response to the problem as we are able to understand and project it. We do not know when the current recession will end, but the target is based on pessimistic projections—as it should be—and if the economy performs better than expected, the enactment of a revenue and savings package that meets the target will produce a comfortable reserve by 1990. At that time, scheduled increases in the payroll tax are expected to produce additional reserves sufficient to maintain the system well through another quarter century. We believe it impossible to make sound projections beyond that time.

Mr. Chairman, the gravity of the situation requires quick and decisive action by the Congress, and the choices available—as the commission itself noted—are all negative from one point of view or another. Given the delicacy of the negotiation and the unusual accommodation of the divergent interests represented on the Commission, we believe the recommendations are generally supportable—but we must dissent on the coverage of federal employees.

In making its recommendation to cover new federal employees, the Commission states that an independent, supplemental retirement plan should be developed as part of the Civil Service Retirement System. We must agree with Commissioner Lane Kirkland that that putting forth such a proposal primarily in the interest of generating new revenue is exceedingly unwise. It puts the retirement system at risk, both in terms of individual benefits and future system financing, because it would force a hasty revision of benefit and financing structures at a time when there is no clear consensus on the terms and conditions of such a revision. For the thousands of teachers we represent in the Defense Department's Overseas Dependents Schools, this proposal is unacceptable. These teachers, like all federal employees, should have the right to examine and evaluate the details and implications of so drastic a change. The fact is that there is no such information available, and the anxiety of these workers is well founded.

The Commission report cites the constitutional and legal barriers to coverage of state and local public employees, and we should observe at this point that the resolutions of the National Education Association's Representative Assembly declare that Social Security coverage should be available to public employees, but not mandated. Teachers and other school employees in 12 states and in a number of local jurisdictions in other states elected not to be covered when the question was put to them in referendum. These people are understandably worried by the Commission's recommendation to cover federal workers.

In our view, a reasonable alternative to this recommendation would be to remove the taxable earnings ceiling for employers only, effective in 1984. This proposal would yield approximately $41 billion in new revenues between now and 1990, according to the Commission's staff estimates. We believe this would be a fair arrangement, because employers pay far less than their half share; they are able to deduct payroll taxes as a business expense, whereas employees cannot. The rebate to employers in the form of reduced taxes is borne by workers, whose taxes now provide more than 70 percent of all federal revenues. The corporate share is only 11 percent, thanks to the huge tax giveaway of 1981.

While we support the compromise package in the interest of restoring solvency to the system, we have concerns about the Commission's recommendations, which I will enumerate briefly. NEA positions on Social Security, as adopted by the 7,000 delegate body at the 1982 Representative Assembly are attached. They form the basis for the comments which follow.

1. SIX-MONTH DELAY OF COLA

The Commission proposes a savings of $40 billion by delaying the payment of the 1983 COLA by six months and by changing the schedule to a permanent calendar year basis. This is a reduction of benefits estimated to be $20 per month for the average recipient. The Commission proposes that this reduction be alleviated for low-end beneficiaries by increasing the amount of the disregard of OASDI benefits from $20 to $50 in the computation of SSI benefits. We ask that the Committee seek data from the Social Security Administration to determine the exact range of the benefit reduction for individuals and the adequacy of the SSI provision to protect the interests of low income recipients.

2. EMERGENCY CHANGE IN COLA COMPUTATION

The Commission recommends a "fail-safe" financing mechanism that would change the basis of the Cola to the lower of price or wage increases whenever the trust fund reserves fall to below 20 percent of annual outgo. A catch-up provision would be triggered when system reserves rise above 32 percent. This provision puts the entire risk on the beneficiaries. In times of high inflation the effects would be severe. Some beneficiaries would never catch up. If enacted, this provision should have language to protect low-income benificiaries and allow a quick catch-up for these people.

3. TAXATION OF BENEFITS

The Commission proposes taxing 50 percent of OASDI benefits for persons with adjusted gross income of $20,000 if single and $25,000 if married. Under this proposal, OASDI benefits would not be included in adjusted gross income.

It should be noted that retirement income other than Social Security is already subject to federal income taxation. The cutoff of $20,000 is probably too low, and we are concerned that the Committee study carefully its impact on persons with modest retirement benefits and consider the degree to which savings for retirement would be discouraged by it.

In addition, we are concerned that a fixed cutoff would soon affect lower income individuals and couples due to inflation. The cutoff figure would have to be adjusted from time to time.

4. ACCELERATING SCHEDULED TAX INCREASES

The Commission recommendation to increase the payroll tax in advance of currently scheduled rates is fair and equitable, in our judgment, but we would prefer reducing the impact of the increases in 1988 and later years with a refundable tax credit for lower income workers.

5. PROHIBITING TERMINATION OF COVERAGE

The Commission suggests that state and local governments which have elected coverage for their employees should not be permitted to terminate such coverage in the future. It should be remembered that employee groups were given the opportunity to vote on coverage through referenda. NEA believes it is in the best interests of public employees to remain in the system, but this provision should in no way be construed as license for mandating coverage of these employees in the future.

6. ELIMINATING "WINDFALL" BENEFITS

The Commission is concerned that certain unearned benefits accrue to individuals who spend most of their working careers in noncovered employment but who also become eligible for OASDI benefits as a result of relatively short periods in covered employment. While we agree that in some instances the weighted benefit formula occasionally results in some unintended benefits, the correction of this problem should be designed to prevent loss of disability and medical protection which is often inadequate in public and nonprofit employee benefit plans. A recent NEA survey shows, for example, that 36 percent of teachers lack long-term disability insurance in their employment, and fully one-third of teachers consider their other health insurance plans inadequate.

Mr. Chairman, the modifications we have suggested would substantially alleviate significant inequities that we find in the Commission's proposals, and without reducing the efficacy of the package. In fact, our proposal to remove the taxable earnings ceiling for employers only offers a cushion of some $20 billion in the near term that would enable the Congress to address some major deficiencies in the system as it is now structured.

I want to stress, too, that a number of the Commission's proposals have great merit, and should be adopted. For example, we endorse the proposal to add public members to the Board of Trustees as a way of assuring that the people have a voice in the affairs of this important institution. We appreciate the Commission's sensitivity to the inequitable treatment of women, divorced persons, widows, and widowers. The proposed increase in delayed retirement credits is a much better and fairer way to encourage people to work beyond 65 than the proposal advanced by some in Congress to raise the normal retirement age to 66 or 68.

Please understand that our acceptance of the Commission report is conditional on the adoption of its substance by the Congress, with the exception of covering new federal employees. Should the package founder in the buffeting or political conflict and a major portion of it be so overwritten with sharper benefit reductions or larger payroll tax increases that those in the Commission report, we would have to withdraw our support of it. Our primary positions substantially reflect those of the Save Our Security Coalition as stated in the May, 1981 testimony before this Committee by Commissioner Robert M. Ball. A summary of our positions is attached as Appendix II to this testimony, and I ask that it be considered a part of this statement for the record.

Moving beyond the matter of solvency, I would like to address three major deficiencies in Social Security which are of great concern to NEA members: (1) gaps and inadequacies in benefits for women; (2) unfair treatment of public employees under the government pension offset; and (3) elimination of the student benefit.

1. BENEFITS FOR WOMEN

Among all recipients of Social Security, those whose income is lowest are elderly widows, divorced women who were formerly homemakers, and other unmarried women who have long-term employment at low wages.

For many women, inadequate protection in their own right may occur not only because they have stayed out of the paid labor market in order to care for their families, but also because of their experience in the labor market.

While some progress has been made in improving employment opportunities for women, particularly younger women, older working women have clearly had lower paying jobs than men. Women in the labor force are also more likely to be unemployed than men. Among those with paid jobs, women are almost three times as likely as men to be working part-time rather than full-time. These facets of women's paid careers result in low average earnings when working and therefore low Social Security benefits at retirement.

Compounding these problems: Elimination of the minimum benefit for all who became eligible after January 1, 1982, further reduced benefits for women. And the 1981 reconciliation bill phases out student benefits, making it more difficult for widowed mothers of college-age children to help them complete their education.

Although the Commission has suggested some remedies to address the problem of inequities in the system, NEA supports more far-reaching legislation, such as that introduced by Representative Mary Rose Oakar. Her proposals would:

1. Require that the combined earnings of a husband and wife during their marriage be divided equally between them for determining eligibility for, and the amount of, old age and disability benefits.
2. Provide that when a spouse dies, the surviving spouse automatically inherit the deceased spouse's earnings credit to the extent that the credits were earned during the marriage.
3. Provide for credit-splitting at divorce, with each spouse credited with one-half of the earnings credits earned during the marriage.

The Oakar bill also provides for payment of transitional benefits to the widow or widower of an insured beneficiary upon the wage earner's death.

Mr. Chairman, this legislation complements and fulfills the intent of the Commission's recommendations on benefits for widows, widowers, and divorced spouses. We believe that equity is key to the efforts now under way to restore confidence in the Social Security system.

We do not propose that this legislation take effect immediately. Because such a plan would cost an estimated 0.3 percent of total taxable payroll upon full implementation, we ask that it go into effect in 1990, when the system will begin to accrue a surplus. For the long term, additional funding may be required, but we believe that unless the glaring disparities in the treatment of women are addressed by this Congress, attaining solvency will be a Pyrrhic victory. We will be glad to offer the perspectives of our membership to the process of developing appropriate legislation.

2. THE GOVERNMENT PENSION OFFSET

The government pension offset was enacted by Congress as part of the 1977 Social Security amendments. It provides for a reduction of a spouse benefit payable under social security (both retirement and survivor) by the amount of that spouse's earned public pension, unless the public employment is covered by Social Security.

NEA views this provision of law as harshly discriminatory against public employees, and we are grateful to this Committee for its efforts, during the 97th Congress, to correct the problems the offset has created.

With the passage of HR 7093 in December, the exemption for women was extended to July 1, 1983. This provision was adopted by the conference committee instead of House language that would have disregarded two thirds of the earned public pension in computing the offset.

Mr. Chairman, the members of NEA who work in noncovered employment deeply resent any form of government pension offset as insulting and demeaning. Many teachers have made a deliberate choice to enter or re-enter their profession with the clear understanding that the spousal benefit would be available to them at retirement, as a supplement to what is a small pension from the state. The only justification that we know of for retaining the offset in law is the fact that a large number of men would be eligible, and that—so the argument goes—would be too costly.

The cost of the spousal benefit has never been calculated with any degree of precision, but the savings under the 1977 amendment were estimated by the Social Security Administration to be on the order of $100 million per year. The fiscal crisis of the system will not be resolved by a continuation of this outrageous teatment of dedicated public employees, and it is time to take a look at it for what it is—and them repeal it.

RESTORING THE STUDENT BENEFIT

According to estimates by the Social Security Administration, some 900,000 young people received student benefits in 1980, at a total cost of $1.9 billion. The cost of this program has made it a prime target for budget-cutting, and Congress began a rapid phaseout of the program as part of the 1981 Budget Reconciliation Act.

NEA opposed the elimination of the student benefit for two reasons:

(1) For many thousands of young people, the children of elderly, disabled, or deceased workers, the student benefit was the only source of funding their education. This benefit did not, in most cases, duplicate other forms of government assistance, and made the difference as to whether a student could continue his or her education. In view of our long-standing national commitment to education opportunity, it is difficult to understand why Congress yielded so readily to the Administration's proposal to gut this vital program.

(2) At the same time the phaseout was adopted, Congress pulled the rug out from under young people who needed other forms of government help, such as the Pell Grant program, college work-study, supplementary educational opportunity grants, and others administered by the Department of Education.

Mr. Chairman, we brought this double reduction of student assistance to the attention of the Committee and the Committee on Education and Labor. But so great was the rush to accommodate President Reagan's plan to get the federal government out of the education business, that both programs were drastically cut. We have not recovered one dime of the money that was cut from student assistance, and on this premise alone we could argue that the Social Security benefit be reinstated. But the Social Security benefit stands on its own merits, and we urge its restoration as a key component of a rational and effective tool in the effort to restore the national economy.

We are aware, of course, that the student benefit was available to some who could easily afford to go to school without it. It is clearly the responsibility of this Committee to conduct oversight hearings on the administration of the program and to take such legislative action as may be required to eliminate waste. But the first responsibility of this Committee must be to restore the program to those who need it and will make a positive contribution to society as a result of it.

Mr. Chairman, we thank you for allowing us to present our views on a range of issues in Social Security. We have given support to the substance of the National Commission's recommendations, except for the coverage of federal employees. We have underscored the concern of our membership for fairness in the tax and benefit structure, and have presented our proposals for more equitable treatment of women and of public employees, and reiterated our support for restoring the student benefit. Undoubtedly much remains to be done to strengthen and reinforce this vital institution in our society. We hope that this presentation of our priority concerns has been useful to the Committee.

Thank you.

APPENDIX I—NATIONAL EDUCATION ASSOCIATION RESOLUTION ON SOCIAL SECURITY

E-11. SOCIAL SECURITY

The National Education Association believes that Social Security should be available to eligible teachers where desired, but shall not be mandated. Contracts with

Social Security should provide for supplementary plans rather than integrated or coordinated plans.

The Association also believes that teachers who are presently covered under Social Security should strive to remain in the program. It insists on a referendum that would require a majority of affirmative votes of those eligible to vote before a governmental agency files notice to withdraw from the program. If the employee organization votes against withdrawal, cooperative educational and legislative compaigns to forestall withdrawal should be organized and coordinated with other public employee groups.

The Association urges the reform of Social Security laws to eliminate offset provisions that are discriminatory and discrimination based on sex, marital status, or time of retirement and to reduce the retirement age. No benefit promised or no benefit for which money has been collected should be withdrawn without adequate replacement.

The Association further believes that Social Security retirement and survivor benefits should be based upon the Social Security program and Social Security taxes. Health and disability programs should be removed from the Social Security program and financed from general tax revenues. (77, 78)

Appendix II

The National Education Association suggests a set of alternative proposals that would not only address the shortfall in OASDI over the next eight years; it would establish a reasonable 'fail-safe' mechanism that could be invoked at any time fluctuations in the economy bring reserves down below acceptable minimum levels.

1. PROVIDE GENERAL REVENUE FUNDING FOR PART OF MEDICARE

Current law allocates one fifth of the Social Security payroll rax to the medicare hospital insurance fund. And a fifth of the hospital insurance program's expenditures are paid out of general income taxes. We support legislation that would allocate half of the Medicare payroll tax to the Old Age and Survivor's trust fund.

2. REALLOCATE SOCIAL SECURITY TAXES

At the present time, the Disability Insurance fund is running well in the black, with substantial reserves projected for the future. Reallocating payroll taxes would help correct the shortfall in the OASI trust fund.

3. RECREDIT OUTSTANDING CHECKS

Some Social Security checks have never been cashed, and over the years hundreds of millions of dollars have reverted to the Treasury. This money should be credited to the OASI trust fund.

4. BORROWING FROM HEALTH INSURANCE

In 1980, Congress authorized legislation to permit the OASI trust fund to borrow from the Medicare trust fund. This authority expired on December 31, 1982, and should be extended.

5. BORROWING FROM THE TREASURY

To preserve the pay-as-you go principles of Social Security, NEA recommends back-up authority to borrow from the general fund, just as state unemployment insurance programs have done for years. Loans from the Treasury under this plan would be repayable, at market rates.

Mr. Fowler. Thank you very much.

Did I miss anybody?

Dr. Larson. Could I ask a question? I have a much more detailed written statement and I'm wondering if that would be included in the transcript of the testimony.

Mr. Fowler. It shall be included.

Dr. Larson. Thank you, sir. It is much more detailed and goes into an explanation of the various matters that I could not cover in my oral testimony.

Mr. **Fowler**. I understand. Thank you, sir.

I hate to take on an expert like yourself, but let me ask you a couple of questions, if I may, knowing what I risk.

How is it if the Congress did what you advocate, I think in your words, to phase out social security and adopt a mandatory private pension system, why would not a mandatory private pension system be a tax if the Government compels it and makes it mandatory that one contribute then would it not be a tax like social security?

Dr. **Larson**. Well, I believe, of course, that accounts should be established for everybody and that they should be mandatory because a great many people simply would not pay anything into their own retirement accounts unless this were the case, but I think they should be required to make contributions to their own ultimate retirement plan and that whatever laws are necessary in order to accomplish this should be enacted by Congress.

However, any amount that is contributed in that manner should be deductible from the taxable income just the same as the IRA's or the Keogh payments are at the present time. It would not be a tax because it would not go to the Government. It would go into an individual retirement account. It would simply be a savings. It would be exactly the same as if you were putting money into your own savings account at a savings and loan association, only it would be a mandatory savings account.

Mr. **Fowler**. And the fact that the Government mandates it, you don't see that as a form of taxation?

Dr. **Larson**. Well, if necessary, the employer could deduct the money and simply transfer it to the employee's private account, just the same as he now transfers money to the U.S. Government after he deducts it, only instead of going to the Government it would go to a savings and loan association or to a financial institution of some kind.

But it would be a private account and every dollar invested would continue to draw compound interest and would grow at a tremendous rate so that in a few years he would have a very large and a very sufficient savings account in order to make retirement possible in a very comfortable and secure manner.

Mr. **Fowler**. Thank you, Dr. Larson. I understand.

Mr. Clinkscales, in your report in opposing the Commission's recommendations, one of the things that disturbs you is, and I quote you, "Many have done nothing to earn these benefits." Then you make some very innovative and specific proposals, and we thank you.

But in light of that, how do you feel about estate taxes? Do we raise them or lower them? We have been cutting all the estate tax. Our chairman has a way of looking at revenue as we all proposed it the other way. We might relook at what we did in cutting the estate taxes.

The estate taxes, or if you allow big estates to build up and you don't tax them and you pass all of that money on to generations who, in your words, "have done nothing to earn those benefits," is it consistent with your philosophy that we ought to have higher estate taxes as a way possibly to fund the social security system?

Mr. **Clinkscales**. I appreciate your question. It is an interesting one. Frankly, I never considered the question of an estate tax. We did favor the raising of estate tax minimums because of the fact that they, after many years of inflation, had not been touched. We had to act in order to raise those to a level that more reflected a fair passing on to one's heirs. Now, whether or not a change in the social security system such as we suggest would bring about a situation where that should be, I believe it is going to $625,000. I may be in error.

Mr. **Fowler**. Under the current law that's the exclusion, right.

Mr. **Clinkscales**. With that amount of money and the current level of expectation of inflation, I definitely would say to you that that's a consideration that could be taken. Obviously, if we took off with inflation again, we would have to relook at it if we were to lower it again.

Understand that I believe that law was passed with the expectation that inflation would proceed at a much more rapid rate than it has. So I would concur that that is a possibility of seeking additional revenue. However, I really believe that the revenue that is provided, what we are basically asking for as opposed to what Mr. Larson has asked for is that young people, the people who must pay for social security today, have something when they retire and in order to have it we are asking that they really have to sacrifice to get it.

This is not a cop-out on the social security program. It is a major initiative to assure that they have something when they retire as well as that they pay for it, and they pay for the sins of the fathers, so to speak.

Mr. **Fowler**. Well, I think you have come up with some good suggestions.

By the way, my questions, I am sure they are writing newsletters all over Washington trying to peg us. Unlike some of the parties have to issue a hazardous health, my questions do not necessarily reflect the philosophy of the questioner.

But we are all trying to find a way to pay for the social security system, and it has struck me that many of the panels that I have listened to are concerned about who pays and whether there is return in their money, and are offering, as you and Dr. Larson and others, different financing mechanisms.

There are a lot of them around that we have not touched on, estate taxes being one of them.

Mr. Davis, I take it what you are suggesting is a means test for social security to substitute for indexation; is that correct?

Mr. **Davis**. No.

Mr. **Fowler**. You don't want to give it to everybody, but didn't I detect that in your testimony?

Mr. **Davis**. I don't think so.

Mr. **Fowler**. Please correct me. I'm not trying to put words in your mouth.

Mr. **Davis**. I was talking about substituting for the CPI a different index that would be more relevant to the increase in wages.

Mr. **Fowler**. But you did not say anything about need?

Mr. **Davis**. No.

Mr. **Fowler**. Forgive me.

Mr. DAVIS. I feel that the working person suffers if prices go up faster than his wages and that it is a burden that should be shared throughout the economy by retirees as well as by workers.

Mr. FOWLER. Mr. Clinkscales and Mr. Bower, how do you react to the National Education Association's analysis that at this time employers are not paying their equal share with employees into the system?

Mr. BOWER. I would have to tell you that I agree with the testimony that she presented in that case. The employer, through the tax deductions that he gets on his business accounts, does not pay the amount equal to that of the employees under the social security laws.

Mr. CLINKSCALES. Mr. Fowler, I am a businessman, I worked with the National Alliance of Senior Citizens since it was founded over 8 years ago and now has over 1 million members. So we have quite a membership, but I never changed my status as an unpaid person and I am an employer. And as I go down and employ new people, and I have a rather substantial business today, as I have employed more and more people one of the considerations that I always take is: What does that employee cost me?

I do not consider that I'm going to pay into the social security system 6.7 percent of that employee's wage. I consider that that employee is going to cost me *x* number of dollars and that portion that I pay is money that that person must earn just like he earns his portion. When I pay my tax on the 15th or the 10th, 20th, or 30th or every 3 days, which I understand now is a new one on us, I feel that is a total employee tax, not a tax on the employer.

So therefore I feel that the entire idea that there are two levels is really a means of making the entire tax that one must swallow a little more acceptable for the employee.

I think it is somewhat deceptive, and it is a function of employment, not a function of my business or any business making a donation to the Federal social security system.

Mr. FOWLER. Mr. Davis, as a former pinboy replaced by technology, I'm interested to know what the bowling proprietors of the country think.

Mr. DAVIS. Well, Mr. Bower was only partially correct when he says that the employer pays less. I have to remind Mr. Bower that one has to make a profit in order to have a meaningful tax deduction. I'm sorry to say that many of our members are struggling to stay even, and that contribution is a very meaningful one.

I think that what Mr. Clinkscales said is true about the cost of all of the fringes, which today are climbing from 15 percent to 20 percent. If I hire an entry-level employee at close to the minimum wage at $3.50 or $4 an hour instead of $3.50 I am really paying $4 an hour because right there is another 50 cents of hidden cost. These costs will go up pretty soon to 60 and 70 cents.

And when one gets to more skilled workers at the $5 and $6 and $8 range, this is a very, very meaningful cost. In some cases one is inhibited from putting on an additional employee. This can be the straw that breaks the camel's back.

Mr. FOWLER. Are there any pinboys left in bowling alleys anywhere in the country?

Mr. DAVIS. Not that I know of, Mr. Fowler.

Mr. **Fowler**. No pinboys left?

Mr. **Davis**. Not that I know of.

Mr. **Fowler**. What skilled technicians do you have to hire besides somebody to fix the machines once in a while?

Mr. **Davis**. Obviously the machines are our lifeblood. They must run perfectly. It's one of the key things that keeps bowlers satisfied or makes them unhappy, and it does take quite a skilled person to do the preventative maintenance that's required to make this complex machine go through its job without fail over and over again.

Mr. **Fowler**. Well, you have given us another American fable down the drain, no more pinboys. Soon the robots will be doing the bedpans in the hospitals and taking out the groceries.

Mr. **Davis**. The pinboy has been replaced by a $12,000 machine.

Mr. **Fowler**. Well, you don't have anybody to yell at anymore.

Mr. Archer, do you have any questions?

Mr. **Archer**. No.

Mr. **Fowler**. Mr. Matsui?

Mr. **Matsui**. No questions.

Mr. **Fowler**. I thank all of you for your testimony on behalf of the subcommittee.

One more panel, the last chance to solve the social security system dilemma and save it from the Congress.

Family Security Foundation, James M. Wootten; Townsend Plan National Lobby, John Doyle Elliott, Sandra R. Baum, and Jane Sjogren; Gary S. Fields, New York State School of Industrial and Labor Relations, at Cornell; Mr. Rydberg from Towson, Md.; and Mr. Alan P. Cleveland from Manchester, N.H.

I think if you are ready, I want to hear from Wellesley first. It would not insult you if we let the ladies go first this time.

STATEMENT OF SANDRA R. BAUM, ASSISTANT PROFESSOR OF ECONOMICS, ACCOMPANIED BY JANE SJOGREN, ASSISTANT PROFESSOR OF ECONOMICS, WELLESLEY COLLEGE, WELLESLEY, MASS.

Ms. **Baum**. I am Sandra Baum, Assistant Professor of Economics at Wellesley College. I am accompanied by my colleague, Jane Sjogren. We are here not to represent the interest of any particular group but to call your attention to the findings of our recent research on the implications of certain social security reforms.

Specifically we investigated the impact on income distribution and poverty among the elderly of adjusting social security benefits with indexes other than the Consumer Price Index during an inflationary period. Our objective was to determine the effect that the use of alternative indexes would have on the financial well-being of older Americans.

We found that use of an index which rises more slowly than the CPI would cause the number of social security recipients whose incomes fall below official poverty levels to rise significantly.

It can be argued that indexing benefits to the CPI overstates the inflation experienced by the elderly. In particular, the large housing component of the CPI is misleading for the elderly, who rarely buy new homes. Proponents of this argument have suggested several alternative indexation policies. These include an index based specifically on the consumption patterns of the elderly.

A second line of criticism of the current procedure suggests that benefits should be indexed according to changes in the wage rates of those currently contributing to the system rather than to price levels. This recommendation is based, in part, on the observation that wage increases may lag behind price increases during inflationary periods.

It also reflects the view that such a system would be a more equitable arrangement between workers and beneficiaries. Indexes which could be used include the average hourly earnings index or the compensation per hour index.

A third perspective, the one evident in the Commission's recommendations, simply suggests that benefit increases should be slowed to reduce the system's costs. This could be done either by increasing the lag time, as proposed, or by indexing benefits to a fraction of the increase in the CPI.

We estimated the impacts of several of these possible indexing schemes on the distribution of income and incidence of poverty among the elderly. All of the schemes tested would have saved money for the system, since they would have caused benefits to rise more slowly than they actually did.

We used a sample of young (ages 67-70 in 1976) social security recipients and simulated their incomes over the 1970-1976 period under alternative indexing schemes. In 1976, the actual distribution of income among this elderly population was such that 5.1 percent of the total income accrued to the lowest 20 percent, while the top 20 percent received 48.0 percent. That is, the income of the elderly population was more concentrated at the top of the distribution than income of the overall population.

More importantly, however, poverty among this group was high by national standards. 19.4 percent had income under the poverty level in 1976, compared to about 11.5 percent of the total population. Poverty was especially serious for women without husbands; 32.5 percent of these women were officially poor in 1976.

When incomes were adjusted to reflect social security benefit linkage to any of the indexes suggested above, poverty rates became significantly larger. Had benefits been indexed to the CPI from 1970 to 1976, the poverty rate in the sample would have been 21.2 percent instead of 19.4 percent in 1976.

Slower rates of increase would have produced higher poverty rates. For example, indexing to 3/4 of the CPI would have generated a poverty rate of 24.1 percent by 1976; leaving nominal benefits constant would have left 32.2 percent of the sample beneath the poverty line after 6 years.

The results for unmarried women are particularly startling. The corresponding figures are 35.5 percent for the CPI, 40.5 percent for 3/4 CPI, and 51.3 percent for unindexed benefits. In addition, we found that the distribution of income among the elderly would become less equal the less rapidly benefits increased.

Ms. **SJOGREN**. These findings indicate the extent to which social security benefits are a sufficient income supplement to keep many of the elderly just above the poverty line. They indicate clearly that if smaller or slower cost-of-living adjustments were used, poverty among the elderly would become much more widespread.

These findings tend to underestimate the seriousness of the problem because they are based on a sample of the young, elderly and retired. The effect of slower benefit indexing on the older elderly—those aged 70 and over—would be even worse. Because incomes decrease with age, social security is a larger proportion of income for this group.

In addition, women without husbands make up a larger share of the older elderly. Unmarried women have the smallest incomes and are also more dependent on social security than are other older Americans.

In sum, this evidence provides a strong indication that poverty among the elderly would be significantly worsened if social security benefits were increased more slowly than the increases in the Consumer Price Index.

Increased poverty among the elderly would create greater need and eligibility for other forms of social services. In particular, if cost-of-living benefit adjustments were slowed, the increase in poverty among the elderly would result in greater demands on the Supplemental Security income program.

The additional SSI expenditures would go primarily to persons who are already officially poor under the existing social security system. While SSI guarantees a minimum income to the elderly, that minimum is considerably below the official level. The cost of other publicly supported programs, such as medicare and medicaid, would also increase, thus choosing to improve the social security system's financial status by reducing expenditures for cost-of-living benefit increases is potentially very costly in terms of increased expenditures for other programs. It would also mean a real decrease in the economic and social well-being of many older Americans. We urge that you keep these considerations in mind while pursuing the difficult task of choosing the best method to guarantee the solvency of the social security system.

Mr. Fowler. What is that?

Mr. Bartlett. For a farm family of four, it is approximately $10,000. For the elderly, it is less and for smaller households, it is less.

Mr. Fowler. $10,000 for a family of four?

Mr. Bartlett. Approximately, that is right.

Mr. Fowler. Excuse me.

Ms. Sjorgen. The cost of other publicly supported programs such as medicare and medicade would also increase. Thus choosing to improve the social security system financial status by reducing expenditures for cost-of-living benefit increases is potentially very costly in terms of increased expenditures for other programs. It would also mean a real decrease in the economic and social wellbeing of many older Americans.

We are urging you to keep these considerations in mind while pursuing the difficult task of choosing the best method to guarantee a solvency of the social security system.

[The prepared statement follows:]

STATEMENT OF SANDRA R. BAUM, ASSISTANT PROFESSOR OF ECONOMICS, AND JANE SJOGREN, ASSISTANT PROFESSOR OF ECONOMICS, WELLESLEY COLLEGE

SUMMARY

In a recently completed study, we documented the potential effects of adjusting Social Security benefits by cost-of-living indexes other than the Consumer Price Index. During inflationary periods, linking benefits to an index which rises more slowly than the CPI would significantly increase poverty among the elderly. We suggest that using a different indexing procedure as a means of lowering the Social Security system's expenditures is potentially very costly in terms of both increased demand for other support programs and the well-being of the elderly.

STATEMENT

We are here not to represent the interests of any particular group, but to call your attention to the findings of our recent research on the implications of some potential Social Security reforms.

Specifically, we investigated the impact on income distribution and poverty among the elderly of adjusting Social Security benefits with indexes other than the Consumer Price Index during an inflationary period. Our objective was to determine the effects that the use of alternative indexes would have on the financial well-being of older Americans. We found that use of an index which rises more slowly than the CPI would cause the number of Social Security recipients whose incomes fall below official poverty levels to rise significantly.

It can be argued that indexing benefits to the CPI overstates the inflation experienced by the elderly. In particular, the large housing component of the CPI is misleading for the elderly, who rarely buy new homes. Proponents of this argument have suggested several alternative indexation policies. These include an index based specifically on the consumption patterns of the elderly or an index which uses a rental component to represent housing costs.

A second line of criticism of the current procedure suggests that benefits should be indexed according to changes in the wage rates of those currently contributing to the system rather than to price levels. This recommendation is based, in part, on the observation that wage increases may lag behind price increases during inflationary periods. It also reflects the view that such a system would be a more equitable arrangement between workers and beneficiaries. Indexes which could be used include the Average Hourly Earnings Index of the Compensation per Hour Index.

A third perspective, the one evident in the Commission's recommendations, simply suggests that benefit increases should be slowed to reduce the system's costs. This could be done either by increasing the lag time, as proposed, or by indexing benefits to a fraction of the increase in the CPI.

We estimated the impacts of several of these possible indexing schemes on the distribution of income and incidence of poverty among the elderly. All of the schemes tested would have saved money for the system, since they would have caused benefits to rise more slowly than they actually did. We used a sample of "young" Social Security recipients (ages 65–70 in 1976) and simulated their incomes over the 1970–1976 period under alternative indexing schemes.[1] In 1976, the actual distribution of income among this elderly population was such that 5.1 percent of the all income was received by the lowest 30 percent, while the top 20 percent received nearly half. That is, the income of the elderly population was more concentrated at the top of the distribution than income of the overall population. More importantly, however, poverty among this group was high by national standards. Over 19 percent had incomes under the poverty level in 1976, compared to about 11.5 percent of the total population. Poverty was an especially serious problem for women without husbands; nearly a third of these women were officially poor in 1976.

When incomes were adjusted to reflect Social Security benefit linkage to any of the indexes suggested above, poverty rates became significantly larger. Had benefits been indexed to the CPI from 1970 to 1976, the poverty rate in the sample would have been 21.2 percent instead of 19.4 percent in 1976. Slower rates of increase would have produced higher poverty rates. For example, indexing to three-fourths of the CPI would have generated a proverty rate of 24.1 percent by 1976; leaving nominal benefits constant would have left almost a third of the sample beneath the poverty line after those six years. The results for unmarried women are particularly startling. The corresponding figures are 35.5 percent for the CPI, 40.5 percent for three-fourths CPI, and 51.3 percent for unindexed benefits.

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[1] Data were obtained from the Social Security Administration's Retirement History Survey. Sample size was 7992.

1976 POVERTY RATES UNDER ALTERNATIVE INDEXING SCHEMES FOR 1970–1976

[In percent]

	Actual	CPI	Prices for elderly index	Average hourly earnings index	¾ CPI	Unindexed
Total sample	19.4	21.2	22.5	21.0	24.1	32.2
Unmarried women	32.5	35.5	37.8	35.3	40.5	51.3

Income distribution among the elderly would become less equal the less rapidly benefits increased.

These findings indicate the extent to which Social Security benefits are a sufficient income supplement to keep many of the elderly just above the poverty line. They clearly show that if smaller or slower cost-of-living adjustments were used, poverty among the elderly would become more widespread. When interpreting these findings, it is important to note that they tend to underestimate the seriousness of the problem because they are based on a sample of the "young" elderly and retired. The effect of slower benefit indexing on the "older" elderly (those aged 70 and over) would be even worse. Because incomes decrease with age Social Security is a larger proportion of income for this group. In addition, women without husbands make up a larger share of the older elderly. These women have the smallest incomes and are also more dependent on Social Security than are other older Americans.

In sum, this evidence provides a strong indication that poverty among the elderly could be significantly worsened if Social Security benefits were increased more slowly than the increases in the Consumer Price Index. Increased poverty among the elderly would create greater need and eligibility for other forms of social services. In particular, it would result in greater demands on the Supplemental Security Income program. The additional SSI expenditures would go primarily to persons who are already officially poor under the existing Social Security system. The costs of other publicly supported programs, such as Medicare and Medicaid, would also increase.

Thus, choosing to improve the Social Security system's financial status by reducing expenditures for cost-of-living benefit increases is potentially very costly in terms of increased expenditures for other programs. It would also mean a real decrease in the economic and social well-being of many older Americans. We urge that you keep these considerations in mind while pursuing the difficult task of choosing the best method to guarantee the solvency of the Social Security system.

Mr. Fowler. Thank you very much.

Mr. Rydberg.

STATEMENT OF TRYGVE M. RYDBERG, TOWSON, MD.

Mr. Rydberg. Mr. Chairman, and I should say distinguished chairman and subcommittee members——

Mr. Fowler. I am not the distinguished chairman. The distinguished chairman is not here.

Mr. Rydberg. I still think you are distinguished. I haven't been delegated by this last panel to say this, but after listening all day and watching the patience and understanding that all of you have given up there, I think you are all distinguished. And you certainly deserve a salary raise.

Again, I am speaking for myself. They might shoot me. I don't know.

Mr. Fowler. Well, you are doing all right so far. You have got a few more minutes.

Thank you.

Mr. Rydberg. My name is Trygve M. Rydberg, speaking as an individual and former chairman for several years, of the legislative retirement committee in Annapolis, Md. for MSTA, the Maryland State Teachers Association.

Gentlemen, I hear kicked around that there is only one plan in town. But after being here today, there are one heck of a lot of plans around here, not just one. I thought this would be the other one, but it isn't after listening today. There is another plan in town and I am rather chagrined because it has been in town for about 10 years.

Distinguished persons, Mr. Herbert Stein and also Alan Greenspan had this plan in 1974 and thought it was a wonderful idea. Every administration has received it since Nixon, Carter, and Reagan received it in 1980 in Baltimore before he was President. And I received two letters from him, before and after he became President. I still think if this would have been done 10 years ago, we would have been in the black and wouldn't be having the worry we have today.

There is another plan in town for social security and has been in town for quite awhile. I propose that another option should be added by legislation, to all retirement plans throughout the country, for workers who are eligible for full retirement benefits. This plan would be called the optional gradual retirement plan. This added option to the others in pension plans would allow a worker, earning for an example $20,000 a year, to continue working without interruption, a one-half day schedule instead of a full day. His earnings would then be $10,000 a year. He would also be allowed when he became eligible for full retirement benefits, to draw his full pension benefit of $10,000 or better per year which he has earned, and would have every right to collect if he retired normally along with his social security benefits if he were to stop working altogether. This undoubtedly would be the "sweetener" which would have millions of workers in this country clamoring to be allowed to continue working, without the need of passing legislation for higher ages before a worker could collect his social security benefits. Instead of retiring completely on his social security and pension benefits, he would continue working, since his pension and salary from the optional half-day work schedule would be much higher in take-home moneys than if he stopped working altogether.

Many disabled workers would also be able to cope better with the half-day work schedule than the full-day work schedule, and would be less likely to draw upon the social security disability benefits. Workers would undoubtedly opt—from my experience in Maryland, where many public workers asked me if they could be the "guinea pig" for my plan—to work a one-half day schedule for $10,000 per year, and draw the other $10,000 or more per year from his earned pension plan.

The $10,000 a year which is not paid to the one-half day worker, could be used in the following ways:

One, to employ a new full-time worker who would also contribute to the social security system, making for an immediate increase in the rate of production of 50 to 75 percent in the United States, for each worker who would choose to go on this gradual retirement plan, rather than retiring completely.

Two, more disabled workers would now find that they could continue to work a one-half day schedule and be more productive, instead of drawing social security benefits which would be a much lower amount of take home money.

Three, a savings of $1,000,000 for the company or governmental agency for every 100 workers earning $20,000 per year and choosing the gradual retirement plan with no additional worker being hired. There are at least 10 million workers in the country in all kinds of work who would be eligible for this plan. Some of the ways in which this plan would benefit our social security system and other benefits are the following—I have nine. May I continue?

Mr. **Fowler**. Try to summarize.

Mr. **Rydberg**. I can't summarize nine benefits. There is a complete statement.

Mr. **Fowler**. We have your complete summary.

[The material referred to follows:]

NINE BENEFITS OF PLAN I

1. This proposal would not cost one dollar in tax monies nor use any present tax revenues since the partially retired worker's one-half original pay would subsidize the billions of dollars in savings for the employer, governmental agency, or be used to pay a full time new worker. The partially retired workers retirement system would make up the difference in the retiree's own take home monies from his earned retirement benefits, and he would continue working on a one-half day schedule and continue contributing to the Social Security System along with the new worker, instead of drawing monies from the Social Security System.

2. It would eliminate the present controversy of the proposed Social Security Plan since everyone, employees, employers, retirement systems and especially the Social Security System, would benefit by this plan. No one would be hurt.

3. This Plan would help the Social Security System to save billions of dollars. Instead of workers drawing monies from the System, they would continue to contribute to the System and work longer voluntarily. This plan is ongoing and would continuously save billions of dollars in the future, beyond the year of 2000 for the Social Security System.

4. Millions of workers reaching the retirement age, would ask (and not be encumbered with negative legislation) to continue working after the ages of 62 through 68 and longer, and would not draw upon their Social Security System.

5. This Plan would help enormously to alleviate the unemployment problem, and provide millions of jobs for the unemployed.

6. This Plan would encourage our expensively trained military personnel which cost billions of dollars to train, to stay in the armed forces at retirement time, and would also be a strong incentive to attract new enlistees. This would also be a great savings in the military budget.

7. This Plan would also be a saving to Retirement Systems, since workers would choose to retire at an earlier age with a lower retirement base and a corresponding lower C.P.I while working on a one-half day schedule.

8. This Plan would provide a tremendous mental, physical and financial help for senior citizens.

9. This Plan would also increase the opportunity and availability of leadership positions.

Last, but not least, I would be remiss in not pointing out a most important benefit beside the economic ones, and that is the humanitarian aspect of this proposal. The medical and psychiatric professions have long recommended, that continued usefulness of our senior citizens both mentally and physically, increases the happiness and the life-span of the individual. This Plan would make this dream a reality.

Mr. **Rydberg**. There is a plan 2 and plan 3. It is only two paragraphs long.

Mr. **Fowler**. Plan 2 and plan 3 will be made a permanent part of the record.

Mr. **Rydberg**. I have a project here of more detail of concomitant benefits which I knew I wouldn't be able to go into today which I would like to be submitted as part of the record.

Mr. Fowler. The committee would be delighted.

Mr. Rydberg. There is a plan 2 and plan 3——

Mr. Fowler. Give me 30 seconds on plan 2 and 30 seconds on plan 3. Pretend you are talking on television. You are voice of America. Plan 2 for 30 seconds, then plan 3.

Mr. Rydberg. Many workers have been able to build pensions and retirement funds to meet some of their necessities in life. For these workers who do not have enough money for a down payment on a house or to meet payment on catastrophic medical bills, when they would become eligible for their social security benefits, give them the option to withdraw their contributions along with matching or fair and reasonable contributions from the social security system. The benefits from this plan would be the following:

One, the social security system would not have any liability to the worker once he makes this withdrawal. This would eliminate all scheduled payments and CPI increments by the social security system.

Two, the national housing industry would receive the stimulation which is so badly needed from these moneys which would become available for purchasing homes.

Three, the moneys received by the worker could be invested in such a manner as to increase up to 30 percent over the amount which he would have regularly received from the social security system.

Four, the workers invested principal from these moneys would always be available for any emergency or he could use it to begin a small business.

Every great humanitarian cause throughout all history has been stimulated by the need of power and by money reasons, starting right with the Crusades through the Civil War through our social security's need for jobs, and today, instead of this Congress being said by everyone, that they crucified everybody with the Social Security Retirement Commission's plan, instead, with the optional gradual retirement plan they could say that they had been one of the greatest humantarian Congresses we have ever had.

Mr. Fowler. Thank you, sir.

[The information follows:]

Trust loopholes should be closed by Congress. The enormous Trust Capital which has been amassed in recent decades and which has escaped paying any taxes through one loophole after another, should now be taxed in a fair and reasonable manner. The federal revenues which could be raised this way, could be used to fund and "shoreup" the Social Security System.

A Summary of Benefits To Be Derived From the Proposal on Optional Gradual Retirement

1. A one million dollar saving per one hundred employees choosing this plan, $20,000 per year earning per employee $10,000 full retirement benefit.
2. This proposal would not cost one dollar more in tax monies, since the partially retired worker's one-half original pay would subsidize the savings, on a new worker, and the partially retired workers retirement system would make up the difference in the retiree's own take home money from his own retirement benefits when he would become eligible.
3. Could have one and one-half plus workers for the same $20,000 salary, thus increasing the national productivity which President Reagan is calling for.
4. Would be a tremendous mental, physical and financial help for senior citizens.
5. Would help to alleviate the unemployment problem.

6. Would help the Social Security System. Instead of workers drawing monies from the system, they would continue to contribute to the system and work longer.

7. Would also mean a savings to Retirement Systems, since workers would choose to retire at an earlier age with a lower retirement base and a correspondingly lower C.P.I. on a part-time work basis.

8. It would increase the opportunity and availability of leadership positions.

9. This proposal would encourage our expensively trained military personnel to stay in the armed forces at retirement time and would also be a strong incentive to attract new enlistees.

Many other benefits could be derived from this proposal such as the improvement in the morale of employers and employees, and the psychological and medical (health benefits to be obtained by the retiree from a gradual retirement program.

Parallels of the other concomitant benefits in this proposal, can be drawn and made applicable to other areas of employment outside of the field of education, such as, in the public and private sectors.

I feel that this proposal would benefit the whole country, and the degree would be dependent upon the emphasis or mix of the above.

COMMENTS FROM LETTERS RECEIVED FROM THE FOLLOWING PEOPLE ON THE "RYDBERG PLAN" ON "A PROJECTION ON AN OPTIONAL GRADUAL RETIREMENT PROPOSAL FOR TEACHERS AND ADMINISTRATORS"

Office: The Chairman of the Council of Economic Advisers, Washington, D.C.

Alan Greenspan: "I share your view that there may be substantial gains in efficiency from reducing rigidities in our economic system. I would add, however, that flexibility in work schedules is probably disirable for all workers regardless of age . . . The Federal Government is currently experimenting with more flexible work schedules for its own employees."

Office: The Chairman of the Council of Economic Advisers, Washington, D.C.

Herbert Stein: "I do, however, find his discussion of some advantages of flexible work schedules to be interesting. . . . it is a useful concept. . . . it should be opened to persons of all ages, not solely those near retirement age."

Montgomery County Public Schools, Maryland, Homer O. Elseroad—(Former Superintendent of Schools): "My only personal observation is that I am very much in support of the idea of an additional option for gradual retirement, and do believe that we ought to be doing more of this because of the capacity of some people at the time of retirement to make a major contribution to our educational requirements. Thanks for sharing your proposal with me and best wishes as you continue to develop it."

House of Delegates, Annapolis, Maryland Frederick C. Rummage: "I have read with interest your proposal on retirement. Aside from being unique and an answer to many questions, it appears to have educational value as well. . . . I can envision considerable advantages in your idea. We can discuss this at our next meeting together somewhere."

Department of Fiscal Services, State Treasury Building, Annapolis, Maryland, Paul D. Cooper, Director, Dept. Of Fiscal Services (Former Director): "As I am sure you would anticipate from reading my dissertation, I would be fully in accord with the purpose of your proposal. Further, it would seem to me that all of your arguments in support of it are sound."

Department of Personnel, Maryland State Retirement Systems, Christ C. Christis, Assistant Secretary: "Your proposal, "A Projection On An Optional Gradual Retirement Proposal For Teachers And Administrators", is most interesting. I am also particularly impressed with your recommendations as enumerated in the proposal."

A PROJECTION ON AN OPTIONAL GRADUAL RETIREMENT PROPOSAL FOR TEACHERS AND ADMINISTRATORS

(By Trygve M. Rydberg, Retirement Committee, Teachers Association, Baltimore County, Maryland Retirement Committee, Maryland State Teachers Association)

At the present time, due to very small retirement benefits, when a teacher or an administrator becomes eligible for retirement, instead of retiring (as many would like to do) they are inclined to continue working in order to build a better and more livable retirement benefit, due to inflation, a new mortgage, and children still in college.

Keeping in view the present trend for increased benefits in retirement such as the present federal bill on teacher mobility, changing the formula for retirement from age 60 to age 55, extension of military service credits, reduction and possible elimination of the actuarial penalty at age 60, being allowed to retire with 25 years of service and the cost of living retirement benefit, all of these will help to make earlier retirement more attractive. However, attractive as this may seem, many teachers and administrators still find it necessary to continue working not only to increase their retirement benefits, but also to fulfill the need of being useful and living a fuller life. Psychiatrists and medical doctors both agree that continued usefulness of our senior citizens both mentally and physically, increases the happiness and the life-span of the individual.

We also have a diametrically opposite trend, to raise and even eliminate the required age for retirement for those who are physically able and who so desire to continue to work. A meaningful compromise between these two trends would be an Optional Gradual Retirement Plan which would be beneficial for all.

The many advantages and implications of an Optional Gradual Retirement Plan for student, teacher, administrator and community, are by far more reaching than meets the eye. The advantages of an Optional Gradual Retirement Plan in this projection, permeates each of the following statements in varying degrees for student, teacher, administrator and community.

1. A school system using the Optional Gradual Retirement Plan for Teachers and Administrators:

Example: A teacher who is eligible for retirement benefits and electing to go on the Optional Gradual Retirement Plan.

A teacher's average salary for his 3 highest years at age 60	$20,000
(approximately) Paid to teacher from the Teacher's Retirement System, State of Maryland	10,000
Paid to teacher (after electing the Optional Gradual Retirement Plan of teaching one-half day) by the local school board	10,000
Total amount received by the teacher with one-half being paid by the Teachers' Retirement System ($10,000) and the other one-half being paid by the local school system ($10,000)	20,000
Teacher's total salary paid by the local school system before the teacher elected the Optional Gradual Retirement Plan	20,000
The amount paid to teacher by the local school system, after the teacher or employee elected the Optional Gradual Retirement Plan	10,000
This difference could be used by the local school system to employ one full time teacher. This would add up to 1½ plus teachers for the same price for every teacher who is eligible for retirement and who would elect to go on the Optional Gradual Retirement Plan. In the State of Maryland alone, during the period of July 1, 1979 through June 30, 1980, 1500 teachers retired. This figure could easily double if it became a financial possibility for a teacher to keep up his standard of living in the community to gradually retire at an earlier age and with less years of service	10,000

Note.—See page on "A Summary Of Benefits To Be Derived From The Proposal On Optional Gradual Retirement"

7. The following areas have resource teachers in two or more schools, language, art, music (vocal and instrumental), guidance, physical education and reading.

(a) There could be a substantial saving in mileage expenses between schools by using one-half teachers.

(b) Difficulties with inclement weather (snow, rain) and mechanical failures when traveling between schools could be eliminated, making for a smoother running school for students and administration.

(c) It is plausible that a one-half teacher could teach a solid three hours in the morning and another one-half teacher, three hours in the afternoon. This would be a considerable saving in teaching hours due to free periods, study halls, etc.

8. Having a supply of "one-half" teachers would have many advantages in view of schools with multi-sessions.

9. Administrators would be able to provide for students (such as in the elementary schools) in the morning, a teacher whose "forte" is in reading and the language arts, while in the afternoon, a teacher could be provided who is strong in mathematics and the sciences. This would also be applicable to other subject areas. Students would benefit from the morning and afternoon teachers highest level of teaching ability and energy which comes at the beginning of their teaching day and from the finest these teachers would have to offer in their strongest subject area.

10. Teachers/administrators who are handicapped with a partial disability (physical or otherwise) and who are not eligible for a disability retirement, could financially afford to go on to the Optional Gradual Retirement Plan. In many instances

they would physically be better able to cope with a one-half day of teaching or administration rather than a whole day.

11. The Optional Gradual Retirement Plan with the same tax dollars, would greatly help throughout the country to alleviate todays critical teacher surplus and would be a step forward to quality education. With quality education, the teacher surplus would disappear tomorrow.

12. Teachers who are on the Optional Gradual Retirement Plan would have more free time and would be more likely to react positively to a request for extra services from them in their schools.

13. Teachers on the Optional Gradual Retirement Plan would have more free time to use for research and preparation of class work, to give more students individual help, grading papers, etc. this would be another step forward in the improvement of the quality of education for our students.

14. Teachers and administrators on the Optional Gradual Retirement Plan would have more free time to participate in community activities while still being active as a teacher or administrator in the school system.

15. The available supply of experienced one-half teachers, would help give flexibility to the staffing of a work study program such as that proposed for the junior high school, thus greatly enhancing the possibility of securing federal funds for a program of this nature.

16. Smaller schools with only one administrator and those who use a teacher as a part-time administrator, would be able to have a full time principal and a one-half principal who could act as a one-half consultant for that school and possibly as a consultant for more than one school. This could also be applicable for other administrative personnel such as supervivors, coordinators, etc.

17. The Optional Gradual Retirement Plan does not require any new state legislation in Maryland. It can be initiated and implemented at the local school level. The Maryland State Teachers' retirement Law allows the retired teacher to earn the difference between his retirement benefit and up to the average of his three highest years of salary which he received when he was teaching full time for the school system.

18. The Optional Group Retirement Plan could be the spark which could revitalize the school system by opening up more leadership opportunities for outstanding teachers and administrators. This untapped source of leadership would establish a continum of energy which could permeate the entire school system, and * * *.

19. "Higher spending" for education, is not always necessarily synonymous with "greatest wealth." "Higher spending for education in many instances is based on the "greatest commitment" to education and the school system that initiates and implements the Optional Gradual Retirement Plan would not only give that system a "first" in their commitment to education with less "tax dollars," but also a new direction for the improvement of quality education in our schools. It is not a question of whether a school system can afford it (since this plan would not cost anything), the question is can they afford not to do it in this age of economic accountability?

20. This proposal would make it financially possible for teachers to gradually retire without any additional cost to the local school system.

21. The school system that adopts this plan would have enough money to employ an extra half-teacher with the same tax dollars in the approved budget, for every teacher choosing to go on this optional gradual retirement plan.

22. There is a good possibility that a federal grant would be made available for a pilot program.

23. Thousands of tax dollars could be saved by the state in their matching dollars of teacher contributions in the retirement system. (When a teacher becomes eligible for retirement, contributions are at the highest point with the state's matching dollars.)

24. The trend of school systems to include retirement contribution benefits for teachers in their budgets, these systems would also benefit in savings with this proposal.

25. A supply of qualified half-time teachers would be made available with this plan.

26. Teachers would be inclined to choose this gradual retirement proposal for the following reasons:

(a) The amount of take-home money (retirement plus teaching a half day) would more than equal their full time salary.

(b) Increased retirement benefits from the new law on retirement without penalty for teachers who are 55 years of age with 30 years of service.

(c) Teachers would have the opportunity to teach in their strongest subject area. (Elementary teachers in the comprehensive classroom.)

(d) Teachers who are handicapped with a partial disability (physical or otherwise) and who are not eligible for a disability retirement, could financially afford to go on this Optional Gradual Retirement Plan. They would also be better able to cope with a one-half day of teaching.

(e) Due to their contributions to the retirement system, their total amount of take-home money would not be taxable with this plan. (Federal Income Tax and Social Security Tax).

(f) After becoming eligible for Social Security, their total take-home money would increase.

Important.—The tenure of a teacher who elects the Optional Gradual Retirement Plan would be an important aspect of this plan as well as the need to study the effect that his plan would have on other teacher welfare programs such as, insurance (health, life, income), retirement contributions, sick leave, salary increments, etc.

Sweden Proposes Eased Retirement

PLAN WOULD ALLOW THOSE BETWEEN 60 AND 70 TO TAPER OFF FROM WORK

(By Bernard Weinraub, Special to The New York Times)

STOCKHOLM.—The Swedish Government, seeking to cope with an increasingly large population over the age of 65, has devised an unusual national pension plan designed to ease retirement for men and women, long accustomed to busy workaday living.

The plan, the most far-reaching in Europe, offer Swedes a chance to taper off work gradually between the ages of 60 and 70, combining part-time employment with partial pensions. "A sudden switch from working life to full retirement can be detrimental to many workers—it can harm them mentally," said Kenneth Bratthall, legal adviser of the Ministry of Social Affairs. "We want to give people the chance to adjust," he said.

The proposed legislation backed by labor unions and Government agencies is virtually assured of passage by Parliament and is expected to take effect next summer. It lowers the pension age from 67 to 65 and introduces a broad flexibility that enables Swedes to postpone retirement to age 70 or to advance their pension-time to start at 60, but at reduced levels.

A PART-TIME OPTION

Most significantly, the reform allows the option of working part-time, at one's own pace, and of collecting reduced pensions until full retirement.

"It was unions, supported by doctors and psychologists. who said it would be better if people went into retirement slowly," said Mr. Bratthall, who helped devise the plan.

"We found that people who worked many years and then retired didn't know what to do with their lives. They missed the social contacts, the friends, at work."

They found themselves unproductive after years of productivity," he said. "It was the Government's obligation to change policy and help these people."

SOME PEOPLE JUST DIE

Lara Ruuth, an official of the National Social Insurance Board, which supervises pensions, said: "We've found that some people just die after one or two years of retirement. They've worked 40 or 50 years. They need time to calm down and adjust to retirement."

"People should be able to stay on at work as much as they want and retire slowly. If they want, they should be able to retire earlier too, or at least start the process of retiring so they don't face the shock at 65."

The problems of aging industrial workers, and the physical and psychological effects of retirement have been sources of some anxiety to the Swedish Government, which prides itself on its elaborate network of social and economic care for its population of 8.1 million.

BIRTH-TO-DEATH SUBSIDIES

Sweden's welfare state, supported by one of the highest income-tax rates in the world has virtually wiped out poverty and provides subsidies from birth to death. Children in nursey school are given free breakfasts and lunches; old people and students enjoy 50 percent discounts on state railways; parents get tax-free payments of about $6 a day for six months when a child is born in addition to a tax-free "child allowance," of about $30 a month. Writers get royalties each time someone takes their books out of libraries. Medical care is free, and some funerals are subsidized.

Government officials concede that the problems of the elderly have been especially complex, in part because the issues are psychological, not financial. Moreover, an increasingly large proportion of the population is over 65—life expectancy for men in Sweden is 72, for women 76.

PRICE LEVELS CONSIDERED

Sweden's national pension plan embodies a basic, flate rate pension, and a relatively new supplementary pension based on previous income. Both are set on a fixed figure adjusted each month according to general price levels.

Although pensions vary, an average pension for a couple is about $7,000 to $9,000 a year. These amounts are expected to rise sharply in the next few years as the supplementary pension takes full effect.

Under the Government's new proposals, elderly people who work part-time collect diminished pensions, but continue to collect—and earn—salaries, as well as supplementary benefits.

GRADUAL RETIREMENT

The newest in retirement plans is gradual retirement. Instead of workers being chopped off the payroll at a certain age, from 62 onward, the work load and work hours are decreased beginning at retirement age or earlier—to suit the preference and need of employer and employee.

Rather than being shocked by full employment one day and full retirement the next, employees make the transition gradually and continue to earn salaries for years after gradual retirement actually begins.

That's where the biggest problem is found—in salaries. Those beginning gradual retirement are more reluctant to accept pay cuts than reduced hours and responsibilities. In countries where gradual retirement is already an accepted institution—Denmark, Sweden, France and Japan—this has been the major stumbling block.

It's advisable that companies and employees begin talks on gradual retirement plans years in advance of such retirements. In a quiet, patient atmosphere, workers and managers are more likely to be realistic about pay. Some cuts are reasonable if work hours and responsibilities are considerably reduced. That could be a matter of adjustment—and much of the decision could be left to those retiring, in most cases.

STATEWIDE CONFERENCE ON TEACHER BENEFITS, HOLIDAY INN—FRIENDSHIP, ELKRIDGE LANDING ROAD, SATURDAY, NOVEMBER 10, 1973—9:30 A.M.

PROGRAM

9:30 a.m.—Coffee and Registration.

10:00 a.m.—Morning Session—Retirement.

Presiding: Everett G. Pettigrew, Chairman, MSTA Subcommittee on Retirement, 1972–73.

Greetings: Betsy K. Moyer, President, MSTA.

10:15 a.m.—Optional Gradual Retirement.

Presentation: Trygve M. Rydberg, Chairman, MSTA Subcommittee on Retirement, 1973–74.

10:30 a.m.—Panel Discussion.

Dr. Paul D. Cooper, Director, Maryland State Department of Fiscal Services.

James A. Braswell, Teacher Member, Maryland State Teachers Retirement System.

Dr. Joseph L. Shilling, Superintendent of Schools, Dorchester County.

Robert E. Holt, Field Representative, Social Security Administration, Baltimore.

Trygve Rydberg, Teacher, Baltimore County.

10:55 a.m.—Break.

11:00 a.m.—Discussion.

11:45 a.m.—Retirement Update.
Presiding: Trygve Rydberg.
Presentation: Improved Administrative Services to Members.
Donald Potter, Administrator, Maryland State Teachers Retirement System.
12 Noon—Questions and Answers.
12:30 p.m.—Lunch.
1:30 p.m.—Afternoon Session—Economic Benefits.
Presiding: Roy J. Meyers, Chairman, MSTA Task Force on Economic Benefits.
Presentation: NEA Special Services, Dr. Arnold W. Wolpert, Manager, NEA Economic Benefits.
2:00 p.m.—Open Discussion.
2:45 p.m.—Adjournment.

[From The Wall Street Journal, Sept. 9, 1980]

SEARS SETS EARLY RETIREMENT PLAN TO INJECT YOUTH INTO MERCHANDISING MANAGEMENT

(By Steve Weiner)

Chicago—Sears, Roebuck & Co. took a step towards injecting youth into its merchandising management by announcing a one-time special "sale" on early retirement.

Sears said that for a limited time, it would allow executives who are 55 or older, and who have at least 20 years of service, to retire early and receive special incentive pay in addition to normal retirement benefits. The maximum incentive payment will be half pay for three years.

The offer applies to about 2,200 executive-level employes of Sears' merchandising operation, which overall employs about 17,000 salaried managers. It also applies to 28 of the company's 41 senior officers. Among them are Edward R. Telling, chairman and chief executive officer; Jack Kincannon, vice chairman and chief financial officer; Charles A. Meyer, senior vice president, public affairs; Joseph T. Moran, Jr., senior vice president, merchandising, and Charles C. Wurmstedt, senior vice president, field.

"It's a possibility that there might be some officers who take advantage of it," said Charles F. Bacon, vice president, personnel. "I have no idea who or how many."

Mr. Bacon said, however, that the company "has reserved the right to work with the officers if any number at all elect to take advantage" of the incentive program. He said a wave of early retirements among officers would require that some of them delay their departure to provide for a more orderly transition.

A Sears spokesman said Mr. Telling doesn't plan to retire under the program. However, he said, the four other senior officers, all of them directors, have until early November to decide "and have given no indications" of their plans. "In no case will (a retirement) affect the continuity of Sears management because we have people available at all levels to step into any vacancies," the spokesman said.

If any of the officers are ready to take early retirement, it might be Messrs. Moran and Wurmstedt. Both were passed over for promotion when Mr. Telling, consistent with his push to bring younger men to Sears' top management, named 46-year-old Edward Brennan president and chief operating officer for merchandising earlier this year.

"You'll see many younger faces in key positions," Mr. Telling said in an earlier interview with The Wall Street Journal.

Sears explained its incentive plan partly in financial terms. It said the plan will allow it to reduce the size of its executive work force and to control payroll costs.

Yet most observers said the financial aspects are minor compared with the strong step the plan represents towards providing more opportunity for young managers. Sears often has been criticized for retaining an ingrown, aging management group which some analysts believe has limited the company's flexibility and slowed innovation.

"This is exactly what the doctor ordered," said John Landshulz, retailing analyst with Mesirow & Co., Chicago. "They've got to get some young blood up there. Management that's on the way back is going to accentuate youth." Jeffrey Edelman, first vice president of Dean Witter Reynolds Inc., said, "we're all looking for signs of improvement within their retail operations, and perhaps this is one of the steps."

Mr. Telling, who has told the Journal that there's a "tinge of validity" to criticisms of the company's tendency toward management top-heavy with older men, acknowledged some of his concern about developing younger managers in his prepared statement on the incentive program. "It will enable the company to offer promotions to a good many employes somewhat sooner than planned as early retirees are replaced," he said.

He said the program, which remains open until Nov. 28, also will help the company's affirmative action program and allow consolidation of some executive positions, continuing a long-term efficiency effort.

Mr. Bacon said that unless Sears can move executives off the payroll faster, management-level layoffs are possible. He said the normal executive attrition rate of 6% annually and the incentive program, under which payments will begin in January, should be sufficient to avoid layoffs. Mr. Bacon said the early guess is that 500 to 600 executives may participate.

Mr. Bacon said Sears has noticed a big increase in the number of executives holding their jobs past age 63 since the mandatory retirement age was raised to 70 in 1978. Nonetheless, he said, the company executive population has been reduced by about 1,000, to the existing 17,000 through a conscious effort to consolidate and eliminate supervisory jobs during the past five years. Overall, Sears has about 385,000 employees.

STATEMENT OF JAMES M. WOOTTON, PRESIDENT, FAMILY SECURITY FOUNDATION

Mr. WOOTTON. Mr. Chairman, members of the committee, thank you for this opportunity to speak on a matter of grave importance to our citizens and the future of this Nation.

First, I would like to identify with the ladies from Wellesley and say that I do think that cutting social security benefits in any way is an inapproriate way of solving our problems. I think Government regulations, and inflation, have forced a lot of our elderly to be much more dependent on social security than they ever intended, than I think was ever intended by the program.

Ideally, social security reform would accomplish many objectives. Protection of benefits, no increased payroll tax burden, universal coverage, a countercyclical mechanism, a fail-safe mechanism, no need for general revenues and enhanced capital formation. I leave it for others to comment on how well the Commission's compromised proposal meets these objectives.

Instead, I am suggesting that the time has come to consider what most of this town now considers a radical solution, but which in some form will become law in the not too distant future. The program is simple. I think you have probably heard versions of it already today. Workers would have the option of staying in social security or joining a mandatory savings program. Instead of sending payroll taxes to the Government, they would send them to a kind of super IRA.

As the American public has discovered with IRA's, the power of tax free compounding of interest is staggering. At 8 percent a worker who only averages a thousand dollars a month in wages could accumulate $514,000 by age 64. If he earned $36,000 a year, slightly more than the current maximum taxable income for social security, he would have nearly a million dollars at the age of 60. There are many ways to fund the revenue shortfalls as workers opt out of social security.

The family security program would involve the issuing of social security bonds to finance the transition. This is a suggestion that Mr. Bob Ball made during the National Commission's deliberations, but did not include the other reforms involved in the familiar security program. Unlike ordinary deficit financing, the mandatory savings aspect would also put more savings into the capital markets than issuing the bonds would take out. So that the net effect on the capital markets would be positive or never less than neutral. I know this idea is radical. It is easy to dismiss it while you are trying to cool off a political hot potato. However, it is an idea whose time is coming and should be seriously studied.

I would be glad to answer any of your questions.

[The prepared statement follows:]

STATEMENT OF JAMES M. WOOTTON

The time has come to give people the option of saving their own money for retirement and to scale down a Social Security system that is undermining the economy and the financial security of all Americans.

Crushing burden.—Social Security requires higher and higher taxes to maintain benefits. The New York Federal Reserve Bank found that if pessimistic assumptions are correct and benefits are not cut, payroll taxes will be nearly 20 percent in 1995, 24 percent in 2005, 30 percent in 2015, 42 percent in 2030 and 53 percent in 2060.

Killing the economy.—In 1977 the Congressional Budget Office estimated that for each percentage increase in payroll taxes the U.S. economy loses 500,000 jobs. The system requires a vicious cycle of tax increases that cause unemployment that cause revenue shortfalls, that require more tax increases.

Benefit cuts.—It is morally and politically impossible to cut benefits enough to prevent this tax spiral. Inflation, government regulations and payroll taxes have made many senior citizens more dependent on Social Security than was ever intended.

Unfair system.—Social Security could never be passed today. It is an ill-designed program that takes money from the working poor and gives in to the retired rich, discriminates against women and accounts for a third of the Federal budget.

Time to opt out.—Sixty-three percent of Americans feel they could do better investing their money in an IRA instead of Social Security. Forty percent are ready to quit today and lose all of the taxes that they have paid into the system.

Private alternatives.—The Family Security Program would give people the option of saving from their own earnings for their retirement and buy their own private life and disability insurance.

THE FAMILY SECURITY PROGRAM

The Family Security Program would be an option to the current social insurance system. Instead of a worker's Social Security payroll taxes being sent to the U.S. Treasury to immediately finance the benefits of current retirees, both the employee's and employer's share of that tax would be sent to a Family Security Account opened by the worker at a qualified bank, savings and loan, pension fund, insurance company, etc.

Retirement account

The employer's share, 7.5 percent of taxable wages, would go into a Retirement Account similar to an IRA. The funds could not be used by the worker until he reached the age of 59½ at which time they woud be available at the worker's discretion. The employer's share would continue to be tax deductible to the employer and employee. Withdrawals from this account after age 59½ would be taxed as earned income.

Savings and insurance account

The funds in the Savings and Insurance Account would be used by the worker to bargain for prescribed minimums of life and disability insurance. Any savings realized on the cost of insurance would remain in the Savings and Insurance Acccount as surplus. A worker could increase the portion of his wages that would go to his Savings and Insurance Account up to 17.5 percent of covered earnings in order to create a larger surplus.

Any surplus in this account would accumulate and earn interest tax free subject to the protections of the Family Security Account and would be available to the worker at his discretion. The funds in the Savings and Insurance Account would provide resources to purchase a home or business and to deal with unemployment, illness, school expenses, etc.

Transition

Each worker would have the option of either joining the Family Security Program or staying in the Social Security system. If he chose to stay in Social Security he would continue to pay payroll taxes and would be entitled to whatever benefits that system provides. A person who stayed in the Social Security Program could open a Family Security Savings and Insurance Account and put whatever percentage he desired of wages in excess of payroll taxes up to 17.5 percent of covered earnings.

If a worker chose to join the Family Security Program, his Social Security benefits, when he or his spouse becomes eligible, would be based on his earings to that date. He and a dependent spouse would be ineligible for Medicare, except catastrophic Medicare coverage.

Any worker who stayed in the Social Security system until he was 65 years old or older could join the Family Security Program and would still receive full Social Security benefits, including Medicare. If after 65, he chose to work under Family Security, the funds in both his Retirement and Savings and Insurance Account would be available at his discretion and accumulate tax free. If he chose instead to continue to work under Social Security he could do so without the currently required reduction in benefits.

Financing and transition

For the next thirty years, all current and future obligations of the Social Security system would be paid by the Social Security system, not by general revenues. Therefore, the revenue loss created when some worker's payroll taxes became contributions to private retirement and insurance accounts would be financed by the sale of Social Security Bonds. The net impact on credit markets would be minimized by the fact that the amount of funds injected into the credit markets by Family Security Accounts would always equal or exceed the deficits to be financed by Social Security Bonds. The addition to the capital stock would be substantial.

Some will object that issuing Social Security Bonds will increase the national debt. In fact, the current liability of the Social Security Administration is $12.6 trillion, ten times greater than the $1.2 trillion debt to which we currently admit. That implicit liability is a binding obligation in every moral and political sense. Without radical reform the payment of that debt will require resources equal to as much as 45 percent of payroll.

The Family Security Program will cut the magnitude of that liability substantially by ending future disability and Medicare claims and by freezing the accrual of retirement and survivors benefits for those who join the Family Security Program. After thirty years, the Social Security Bonds that had been previously issued would be retired by the use of general revenues.

There need be no cuts in current or projected Social Security benefits. By financing the transition with long-term bonds, the generations that will benefit the most will pay the most. Those retired or nearing retirement age today have been forced by inflation, government regulations and taxes to become very dependent of Social Security. We need not break faith with them to buy our way out of a program that has put the country on the road to disaster.

Indeed, the Family Security Program offers members of the older generation more options and more security than they would have under Social Security. By paring down our liabilities while meeting our solemn commitments, we will be avoiding the time when members of the working generations cannot and will not continue impoverishing themselves to support those already retired.

A BILL to provide wage-earners the option of joining the Family Security Program in lieu of being covered by Social Security, to create Individual Savings Accounts and to amend in other particulars the Social Security Act of 1935 and Internal Revenue Code.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Family Security Act of 1983."

PREAMBLE

The Congress finds that citizens in every economic station can save for retirement, home ownership and other needs only with great difficulty, that the United States is not creating sufficient capital to sustain her economic growth and that the Social Security system is not suited to meet the needs of all citizens.

SUMMARY

Family Security Act of 1983

1. All workers must be covered by Social Security or join the Family Security Program or both.

2. Employers of members of the Family Security Program shall send at least 15 percent of the employee's wages or salary to a financial institution of the employee's choice instead of to the Social Security Administration.

3. Seven and one-half percent will go to a Retirement Account similar to an IRA which shall be available when the member reaches the age of 59½.

4. Seven and one-half percent to 17.5 percent shall be put in the worker's Savings and Insurance Account. Part of that fund will be used to buy life and disability insurance.

5. Any person who joins the Family Security Program will get any Social Security benefits earned up until that time including catastrophic Medicare coverage.

6. Social Security Bonds shall be issued to fund the shortfall in Social Security as people opt to join the Family Security Program.

I. FAMILY SECURITY OPTION

All employees or those self-employed working within the United States shall either elect to participate in the Social Security Program or the Family Security Program. This shall include employees of the Federal government including Congress and its staff, the military, State and Local Governments, and non-profit corporations.

II. FAMILY SECURITY PROGRAM

Family security account—Generally

A. (1) Each person who exercises the option to join the Family Security Program shall open a Family Security Account (FSA) with a qualified Family Security custodian (hereinafter custodian) and become a member of the Family Security Program.

(2) A Family Security custodian shall be any bank, savings and loan, pension fund, insurance company, brokerage house or registered investment advisor who meets the financial responsibility requirements.

(3) The funds and assets accumulated in a Family Security Account shall be insured by the Federal government against losses from negligence, fraud or institutional failure on the part of qualified custodians, but not against ordinary investment risks.

(4) Although the member would be free to suggest investments or investment strategies to the custodian, it shall be the responsibility of the custodian that all investments be made in accordance with appropriate and prudent investment principles.

(5) Should a member become dissatisfied with the rate of return the custodian is achieving, or for any other reason, he shall be allowed to move his FSA to another qualified custodian.

(6) Funds in a FSA shall accumulate free of all taxes, federal, state or local.

B. (1) The employer of an employee who chooses to join the Family Security Program shall contribute 7.5 percent of the member's covered wages or salary to the member's FSA to be placed in the Retirement Account. (Covered wages or salary shall be the same as for Social Security.)

(2)(a) A member shall instruct his or her employer to send between 7.5 percent and 17.5 percent of his or her covered wages or salary to the custodian for deposit in the member's Savings and Insurance Account.

(b) Protection against judgment, garnishment or attachment shall not apply to any additional percentage of a member's adjusted wages or salary for any obligations that arose prior to the member's election to have additional income withheld and sent to his or her FSA.

(3) The employer's contribution shall be deductible for Federal income and corporate tax purposes to the employer.

C. (1) The funds and assets of a Family Security Account shall not be used or looked to as collateral for any debt or loan and shall not be subject to judgment, garnishment or attachment in any state, local or Federal court.

(2)(a) Notwithstanding section C(1) above, upon divorce, the combined FSAs of both spouses may be divided by a court of competent jurisdiction.

(b) Neither spouse shall be awarded more than half of the combined FSAs of both spouses.

(c) In addition, the Savings and Insurance Account of either spouse shall be subject to garnishment or attachment to satisfy a proper judgment for child support.

(d) Funds cannot be withdrawn from an FSA without the signatures of both spouses without an appropriate court order.

(e) The funds and assets of an FSA shall pass by bequeath, inheritance or devise free of federal, state or local inheritance taxes.

(f) Each FAS shall be covered by a beneficiary clause.

Types of accounts

Each Family Security Account shall be divided into two distinct and separate accounts, a Retirement Account and Savings and Insurance Account.

Retirement account

A. Upon receipt of the monthly or bi-monthly payment on behalf of a member, the custodian shall deposit an amount equal to 7.5 percent of the member's total adjusted wages or salary for that period into the member's Retirement Account.

B. The funds and assets of a member's Retirement Account shall not be available to the member until age 59½, at which time they shall be available without restriction. Provided, however, that such funds and assets shall remain exempt from judgment and taxation until withdrawn from the Family Security Account.

Savings and insurance account

A. Upon receipt of the monthly or bi-monthly payment on behalf of a member, the custodian shall deposit on amount equal to at least 7.5 percent of the member's total adjusted wages or salary for that period into the member's Savings and Insurance Account.

B. From the funds of this account the custodian shall pay the premiums of a prescribed minimum of life and disability insurance.

C. Any surplus remaining in the Savings and Insurance Account after insurance premiums have been paid may: (1) accumulate tax-free with all the restrictions and protection of the Family Security Account; (2) be withdrawn tax-free after one year.

D. Insurance companies that qualify to offer insurance under the Family Security Program shall participate in state pools for certain high risk categories of Family Security members.

E. (1)(a) A member who claims any dependents for Federal income tax purposes shall designate sufficient life insurance three times his average covered earnings for the previous five years. This amount shall be recomputed by the custodian every five years on the anniversary of the member's joining the Family Security Program.

(b) The beneficiary of a life insurance policy purchased through the Family Security Program shall be the Family Security Account, the disposition of whose assets shall be governed by a beneficiary clause executed by the member and shall not be subject to probate.

(c) Upon the death of a member, the funds and assets of his or her Family Security Account may pass tax-free to the Family Security Account of the member's devisees.

(2) Each member shall purchase a minimum amount of disability insurance capable of replacing 50 percent of covered income.

III. VESTED SOCIAL SECURITY BENEFITS

A. Certain benefits to which and individual is entitled under the Social Security Act of 1935 and subsequent amendments shall vest at the time a worker elects to join the Family Security Program.

(1) An individual and his or her family shall be entitled upon meeting the qualifications of the Social Security system, to all retirement and survivors benefits earned as of the date of election to join the Family Security Program.

(2) No individual, spouse or dependent shall be entitled to Medicare or Disability benefits after the person on whom those benefits are dependent elects to join the Family Security Program, except

(3) Any person who stays in the Social Security Program until at least age 65 may join the Family Security Program and shall receive full Social Security benefits, including Medicare. If, after 65, a person chooses to work under the Family Security Program, the funds in both his Retirement and Savings and Insurance Accounts shall be available at his discretion and shall accumulate tax-free.

(4) All persons shall continue to be covered by a new catastrophic Medicare coverage.

IV. AMENDMENTS TO THE SOCIAL SECURITY ACT OF 1935

Interim financing

A. The combined payroll tax rate shall be 13.4 percent, 6.7 percent paid by the employer and the employee respectively.

B. (1) The Social Security Administration is hereby authorized to issue through the Treasury Department, Social Security Bonds in sufficient amounts to fund the revenue shortfalls created by this Act.

(2) Such authority shall cease thirty years from the date of this bill at which time such bonds shall begin being retired and any residual obligations of Social Security system shall be met with general revenues.

C. There shall be no reduction in Social Security benefits at any age based on income from any source.

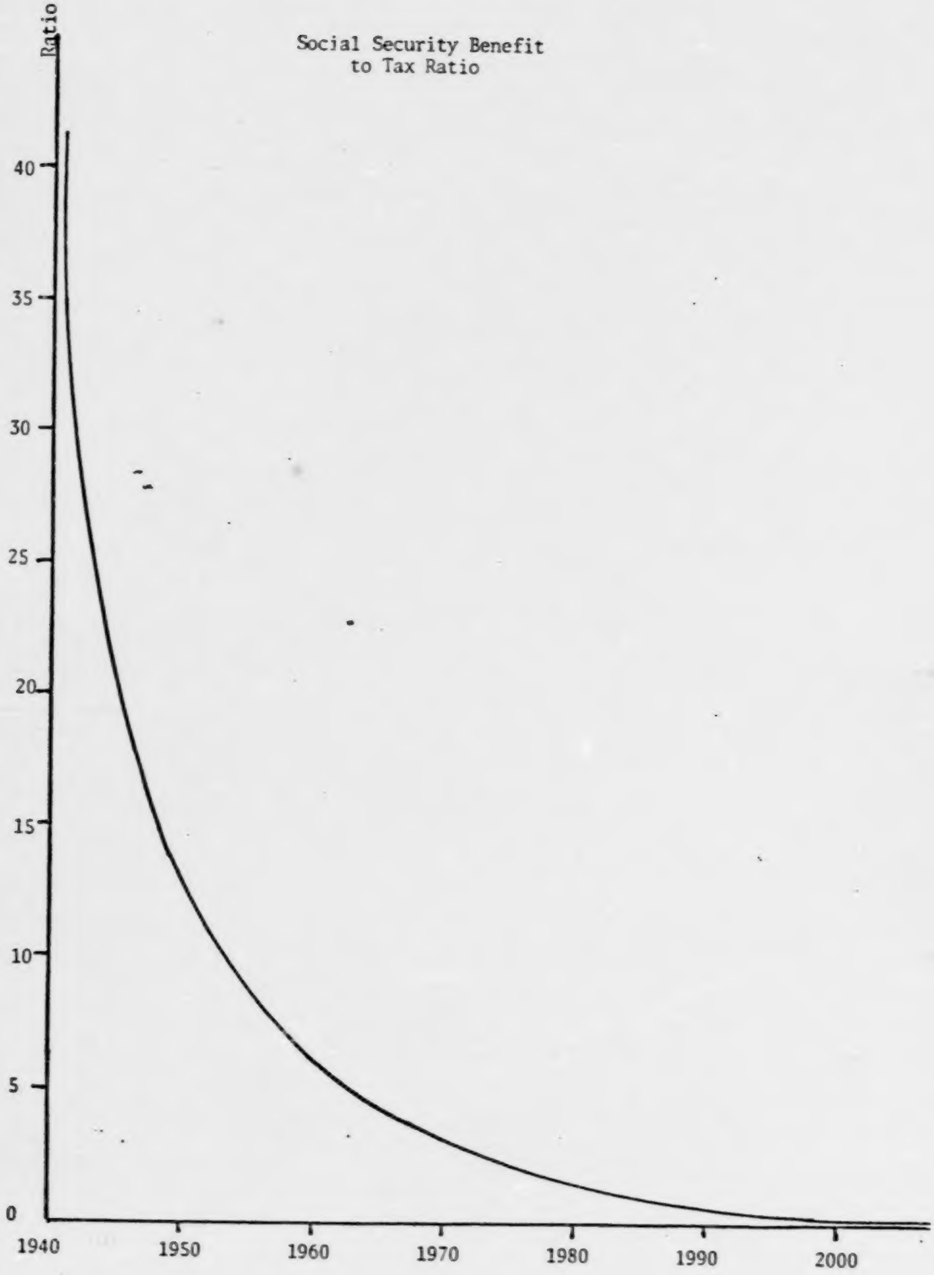
D. All persons over the age of 65 shall be covered by catastrophic insurance under the Medicare program.

FAMILY SECURITY FOUNDATION

JAMES M. WOOTTON, PRESIDENT

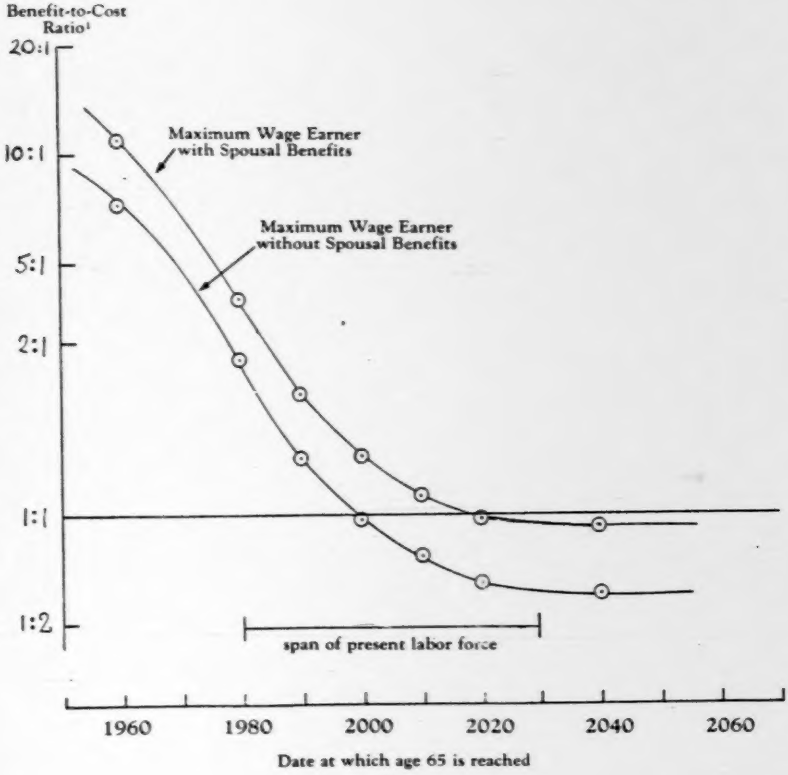
APPENDIX TO TESTIMONY

421 FOURTH STREET, S.E. WASHINGTON, D.C. 20003 202-544-7319



Social Security Benefit to Tax Ratio

BENEFIT-TO-COST RATIOS FOR DIFFERENT GENERATIONS OF RETIREES



H.C. Wainwright & Co., Economics

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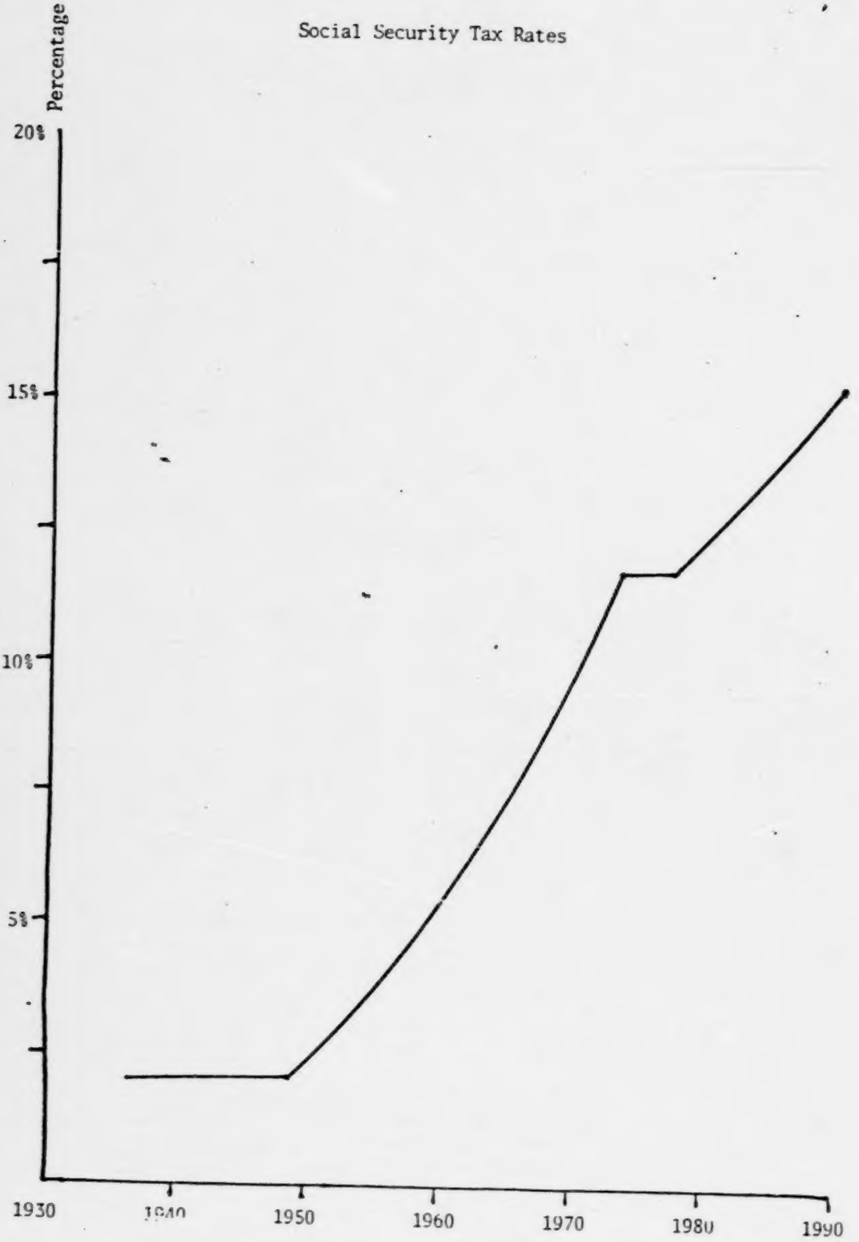
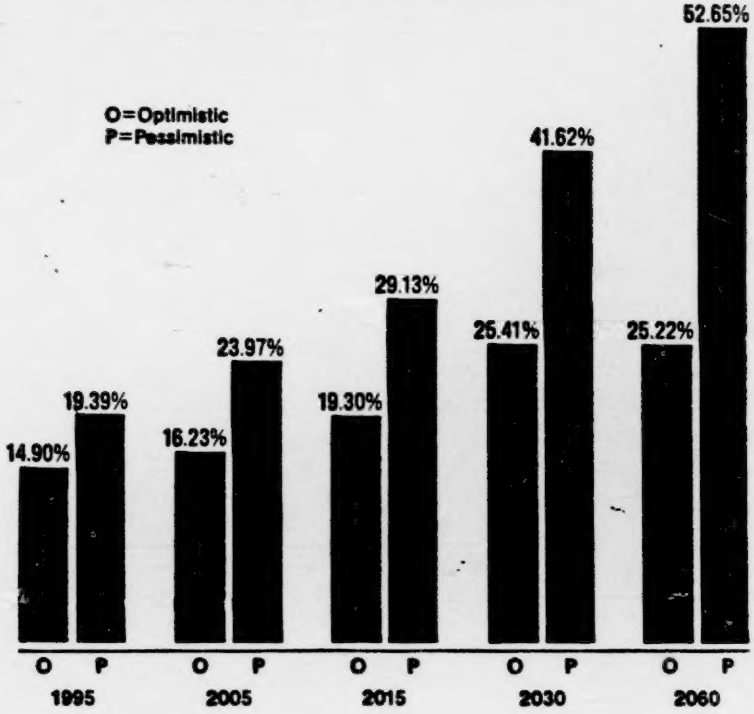
[1] Ratio of $\dfrac{\text{Discounted value of expected pension at age 65}}{\text{Accumulated value of lifetime contributions plus interest}}$

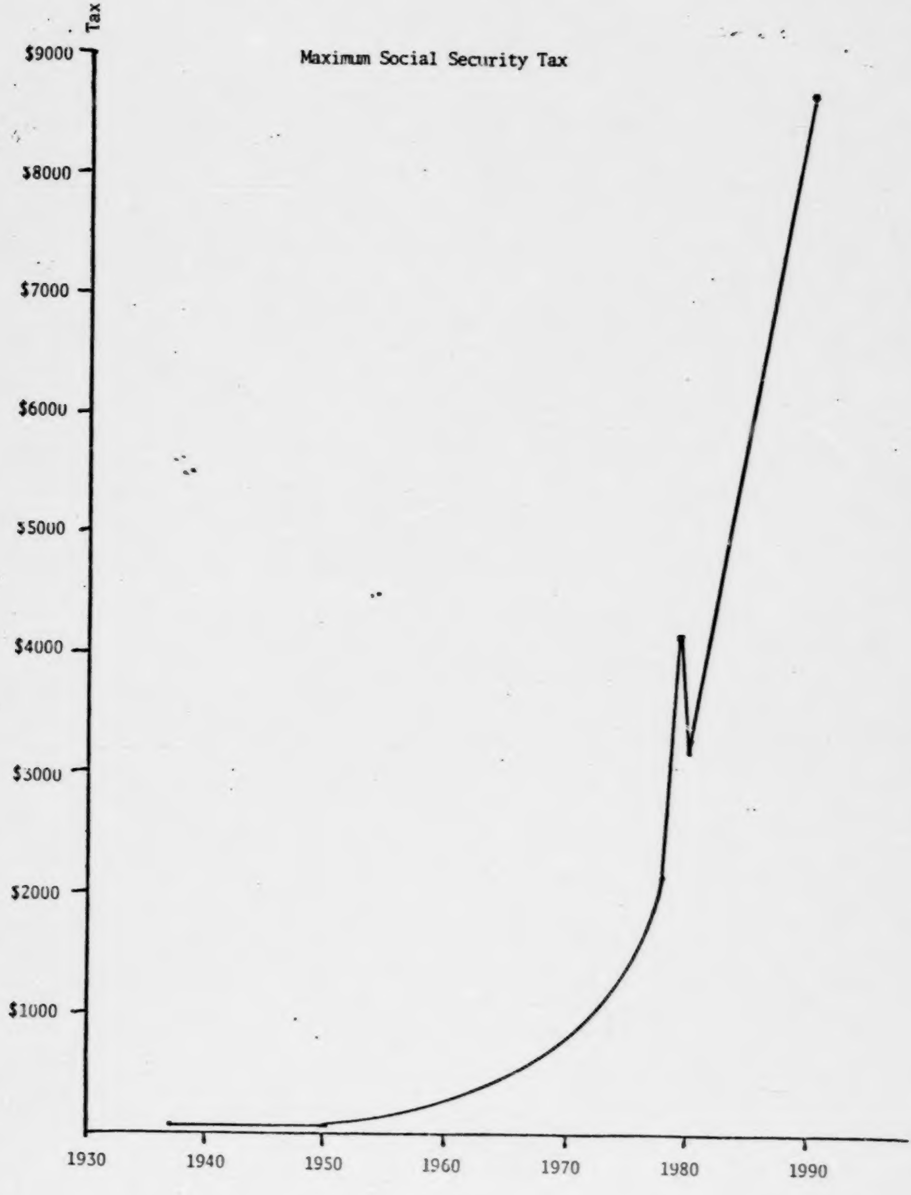

Social Security Tax Rates
Percentage
20%
15%
10%
5%
1930
1940
1950
1960
1970
1980
1990

The Long Term Problem

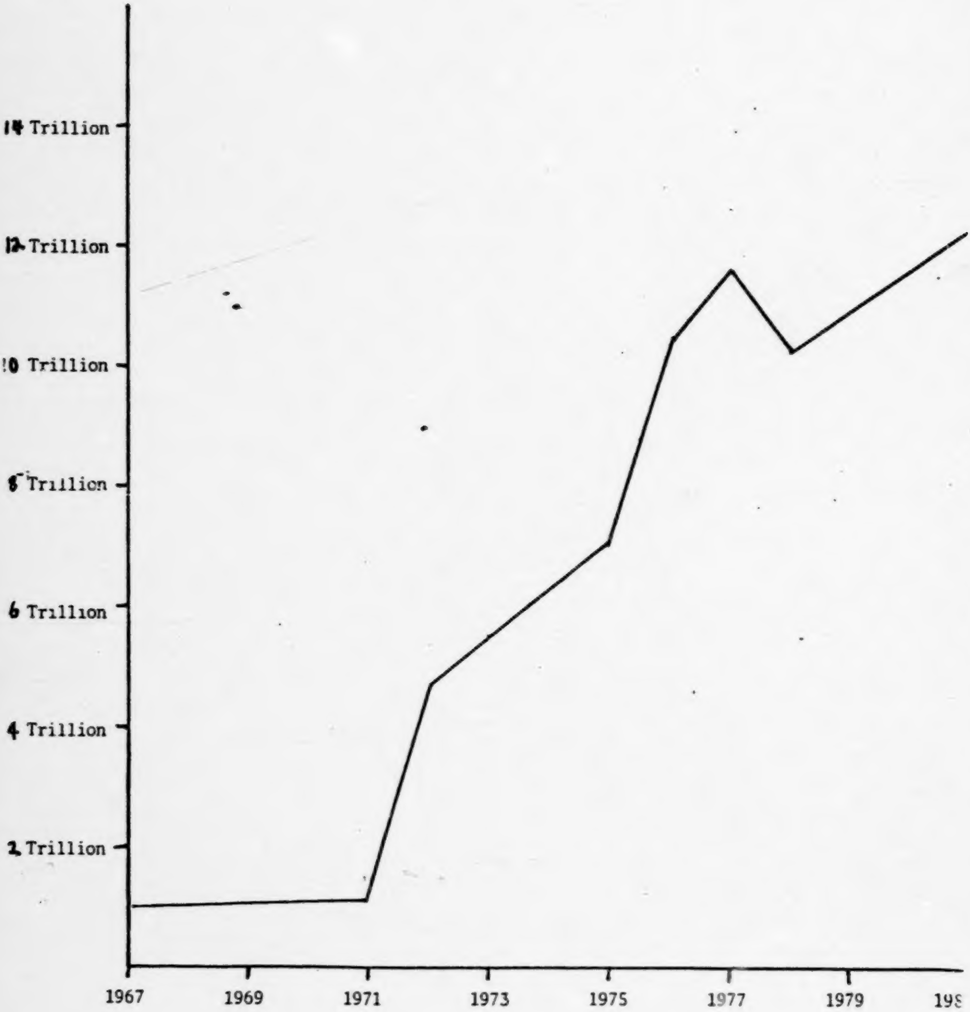
Projected Social Security Tax Rates Needed To Retain Solvency If Benefits Not Reduced



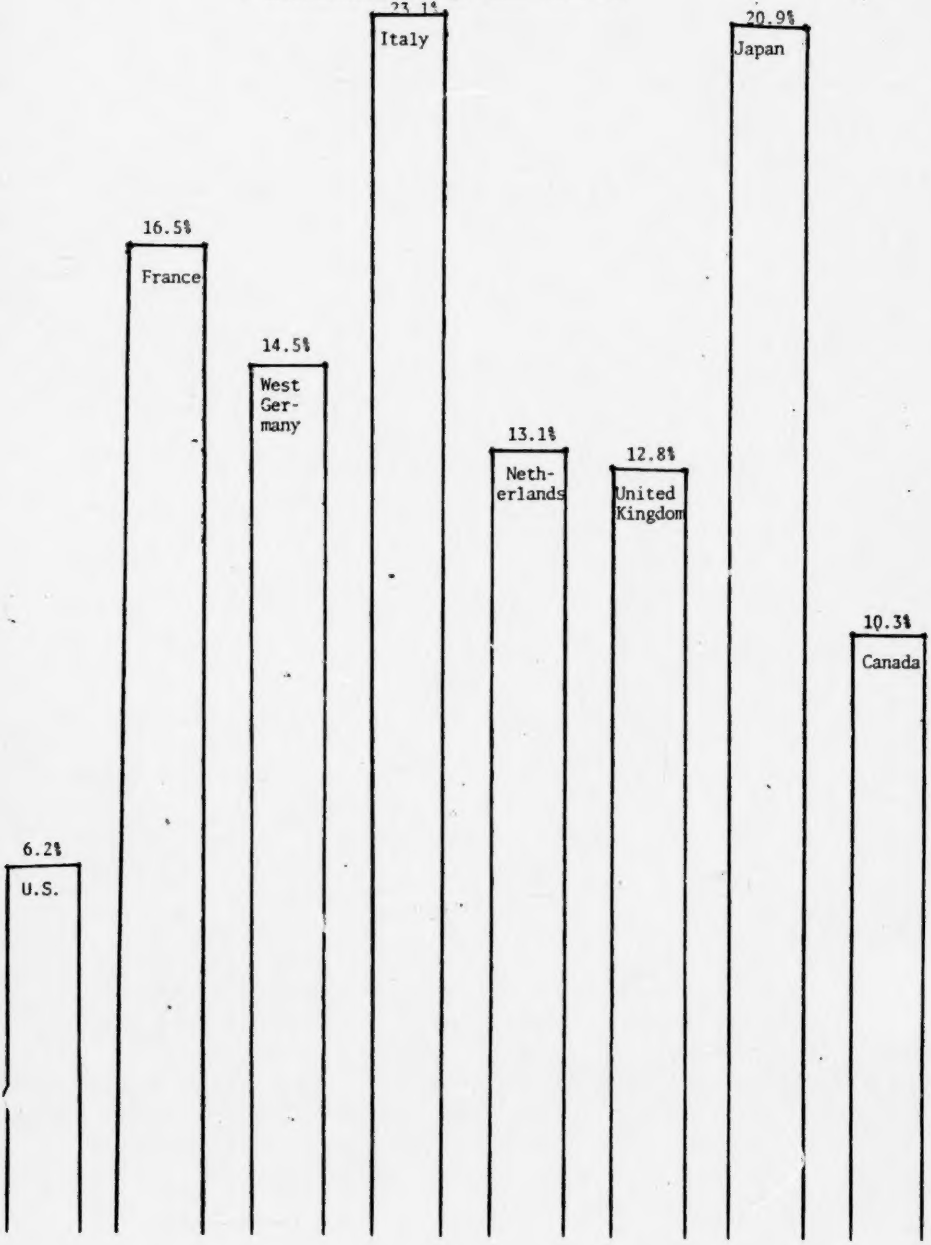
Source: Social Security Administration
Federal Reserve Bank of New York


Tax
Maximum Social Security Tax
$9000
$8000
$7000
$6000
$5000
$4000
$3000
$2000
$1000
1930
1940
1950
1960
1970
1980
1990

Present Value of Future
Social Security Benefits



International Savings Rates (1975-80)



FAMILY SECURITY PROGRAM

6% Compounded Monthly	$8,000 Annual Salary		$18,000 Annual Salary		$36,000 Annual Salary	
	Retirement (7.5%)	Savings (5%)	Retirement (7.5%)	Savings (5%)	Retirement (7.5%)	Savings (5%)
Monthly Deposit	$50.00	$33.33	$112.50	$75.00	$225.00	$150.00
5 Year FSA Value	$ 3,488.50	$ 2,325.43	$ 7,849.12	$ 5,232.75	$ 15,698.25	$ 10,465.50
10 Year FSA Value	$ 8,193.95	$ 5,462.08	$ 18,436.38	$ 12,290.92	$ 36,872.77	$ 24,581.85
15 Year FSA Value	$ 14,540.90	$ 9,692.96	$ 32,717.02	$ 21,811.35	$ 65,434.05	$ 43,622.70
20 Year FSA Value	$ 23,102.00	$ 15,399.79	$ 51,979.50	$ 34,653.00	$103,959.00	$ 69,306.00
25 Year FSA Value	$ 34,649.65	$ 23,097.45	$ 77,961.71	$ 51,974.47	$155,923.42	$103,948.00
30 Year FSA Value	$ 50,225.75	$ 33,480.48	$113,007.93	$ 75,338.62	$226,015.87	$150,677.25
35 Year FSA Value	$ 71,235.50	$ 47,485.58	$160,279.87	$106,853.25	$320,559.75	$213,706.50
40 Year FSA Value	$ 99,574.50	$ 66,376.36	$224,042.62	$149,361.75	$448,085.25	$298,723.50
45 Year FSA Value	$137,799.60	$ 91,857.21	$310,049.10	$206,699.40	$620,098.20	$413,398.80
Income from Family Security Percentage of Salary	$ 8,267.97 103 percent	$ 5,511.43 69 percent	$ 18,602.94 103 percent	$ 12,401.96 69 percent	$ 37,205.74 103 percent	$ 24,803.00 69 percent
Income from Social Security Percentage of Salary	$ 4,728.00 59 percent		$ 7,200.00 40 percent		$ 9,720.00 27 percent	

STATEMENT OF GARY S. FIELDS, PROFESSOR, NEW YORK STATE SCHOOL OF INDUSTRIAL AND LABOR RELATIONS, CORNELL UNIVERSITY, ITHACA, N.Y.

Mr. **Fields**. Good afternoon. I am Gary Fields. I am here to share with the committee the findings of the study I have conducted with Professor Mitchell also of Cornell.

In addition to my other statement, we are submitting written testimony for your consideration.

Restructuring the Nation's social security system will change the economic incentives to work and retire. Some older workers will respond to changed income opportunities by retiring at different agencies. How large will these responses be? In a paper prepared for the National Commission for Employment Policy entitled Restructuring Social Security, how will retirement agencies respond? We examined a number of specific social security reforms and indicate the impacts of each policy package on retirement patterns. We analyzed the earnings of social security and private pension opportunities currently available to older workers. We then see how these opportunities would be altered under serious social security reforms that have been proposed, then using data on a nationally representative sample of older workers, we evaluate how retirement ages would respond to these altered benefit structures.

We find the following policy effects: The policy package lowering social security benefits at early ages and increasing again for retiring later would have the biggest impact in delaying retirement. In particular, proposals to reduce early social security benefits, while maintaining normal benefits at present levels, would induce the average worker to defer retirement by about one-fourth of a year. The policy with the least impact is one which increases only the late retirement credit. This policy leaves retirement ages effectively unchanged. Increasing age of eligibility for normal benefits would have an intermediate effect. We find this would raise the average retirement age by about one-eighth of a year.

Note the small sizes of all these effects. These have important policy implications. Raising the retirement credit would be ineffective in inducing later retirement. Reducing early retirement benefits by changing early retirement reduction factor would save the system money, but hurt the average worker. Increasing the normal retirement age while holding the early retirement age at 62 would save the social security system money, but it, too, would also hurt the average worker. If earlier retirement benefits are reduced by changing the early retirement reduction factor by increasing the normal retirement age, people who cannot postpone early retirement would be hurt the most.

Thank you very much for your attention.

Mr. **Fowler**. Thank you for your specificity.

[The prepared statement follows:]

STATEMENT OF GARY S. FIELDS AND OLIVIA S. MITCHELL[1]

EXECUTIVE SUMMARY OF RESTRUCTURING SOCIAL SECURITY: HOW WILL RETIREMENT AGES RESPOND?[2]

I. Introduction and summary of findings

Restructuring the nation's Social Security system will change the economic incentives to work and retire. Some older workers will respond to changed income opportunities by retiring at different ages. Our paper "Restructuring Social Security: How Will Retirement Ages Respond?" examines five specific Social Security reforms and indicates which policy package has the greatest impact on retirement patterns.

We analyze the earnings, Social Security, and private pension opportunities currently available to older workers. We then see how these opportunities would be altered under five Social Security reforms that have been proposed. Then, using data on a nationally representative sample of older workers, we evaluate how retirement ages would respond to these altered Social Security benefit structures.

We find the following *policy effects:*

1. A policy package of lowering Social Security benefits at early ages and increasing the gain for retiring later will have the biggest impact in delaying retirement. In particular, proposals that reduce early Social Security benefits while maintaining normal benefits at present levels would induce the average worker to defer retirement by about one-fourth of a year.

2. The policy with least impact is one which increases only the late retirement credit. This policy would leave retirement ages effectively unchanged.

3. Increasing the age of eligibility for normal benefits would have an intermediate effect. We find that this policy would raise the average retirement age by about one-eighth of a year.

These results have important policy implications:

1. Raising the late retirement credit would be ineffective in inducing later retirement.

2. Reducing early retirement benefits by changing the early retirement reduction factor would save the Social Security system money but hurt the average worker.

3. Increasing the normal retirement age while holding the early retirement age at 62 would save the Social Security system money but hurt the average worker.

4. If early retirement benefits are reduced by changing the early retirement reduction factor or by increasing the normal retirement age, people who cannot postpone early retirement would be hurt the most.

II. The current social security system

It is well known that Social Security benefit per year increases when a worker defers retirement. This section of our paper reviews the method by which Social Security benefits are currently calculated, and in addition shows how benefits would increase were that individual to postpone retirement.

The average worker would receive about $5,400 in Social Security benefits in 1982 dollars if he left his employment at age 60, rising to $7,900 in 1982 dollars if he deferred retirement until age 68. The additional benefit from postponing retirement varies with age, because the late retirement credit past age 65 (3 percent per year) is less than the early retirement reduction factor before age 65 (6⅔ percent per year).

Although annual benefits rise if retirement is postponed, the individual also grows older, leaving him fewer years in which to collect benefits. It is therefore useful to compare the present value of different benefit streams as viewed from age 60. Here we find that the total flow of Social Security benefits rises by about $2,000 between ages 60 and 65; however, if the worker were to defer retirement beyond age 65, cumulative Social Security benefits fall by nearly $10,000 by age 68. Social Security contributions more than offset any benefit gain for the average worker. Therefore the current Social Security structure rewards retirement at the earliest possible age.

III. Restructuring social security benefits

Five different policy reforms are examined in this section of the paper:

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[1] From a paper prepared for the Conference on National Employment Policy and Older Americans, National Commission for Employment Policy, January 1983. Copies of the full paper are available from the authors upon request.

[2] Mailing Address: Department of Labor Economics, New York State School of Industrial and Labor Relations, Cornell University, Ithaca, NY 14853

A. Increasing the normal retirement age means that the retiree would receive his full benefits at age 68 rather than at age 65, as is now the case. In other words, the PIA multiple would reach a value of 1.0 at age 68 instead of three years earlier. Benefits could continue to be received as early as age 62. The early retirement reduction factor would remain at 6⅔ percent per year.

B. *Changing the early retirement reduction factor* implies that benefits would be reduced for workers filing for benefits before age 65. The early retirement reduction factor would be increased to 15 percent per year; for instance, a retiree at age 62 would receive .55 times his PIA instead of .80 times his PIA as now.

C. *Increasing the late retirement credit* would raise benefits only for those who continue to work beyond age 65. This can be accomplished by increasing the PIA multiple to 1.2 for a worker retiring at age 68, instead of the 1.09 multiple used now.

D. *Increasing the gain for retiring later* is an amalgam of Reforms B and C. This reform would lower the benefit from early retirement and raise the benefit for those who defer retiring until after age 65. This is accomplished by lowering the PIA multiple to 0.55 for age-62 retirees, and increasing it to 1.20 for age-68 retirees.

E. Creating a step function would use one multiple for all retirement ages younger than 65, and a second higher multiple used for those retiring from 65 to 68. Such a setup would provide the same benefits at ages 62, 65, and 68 as under the current system, but benefits would not rise for retirement ages in between.

IV. Estimating the determinants of retirement

In order to determine how older workers of tomorrow might repond to changes in social security such as those described above, we must first consider how older workers in the past actually went about deciding when to retire. we do this by developing and estimating statistical models of the determinants of retirement, using the best available data on earnings, private, pensions, Social Security benefits, and actual retirement ages chosen by a cohort of workers retiring during the 1970's.

Our empirical results show that older workers do in fact work longer when offered greater eocnomic incentives to do so. While health, distaste for work, and other noneconomic considerations surely are influential, economic factors also play a central role in determining retirement patterns.

V. Effects of social security reforms on retirement ages

Building on the work reported above, we then turn to the task of most interest—determining which policy proposal would have the biggest impact on retirement ages. We find that the estimated responses vary widely across the five experiments.

1. The biggest impact in delaying retirement is achieved by lowering Social Security benefits at early ages and increasing the gain for retiring later: in particular, proposals such as B and D that reduce early (Social Security) benefit while leaving other parameters unchanged would induce the average worker to defer retirement by about a fourth of a year.

(2) The policies with the least impact are C and E. C increases only the late retirement credit. while E creates a step function. These policy changes would leave retirement ages essentially unchanged.

(3) Increasing the age of eligibility for normal benefits (A) has an intermediate effect, raising the average retirement age by about one-eighth of a year.

VI. Policy implications

These response patterns suggest four policy implications:

1. Raising the late retirement credit would be ineffective inducing later retirement.—It is sometimes suggested that increasing the incentives for late retirement would be a way of inducing older workers to retire later. We estimate that such a policy would have only a minimal effect. This is because most older workers retire well before reaching age 65. In order to take advantage of a larger late retirement credit, they would have to retire after age 65. Thus, the typical worker would have to retire several years later if the late retirement credit is to pay off for him. He would be willing to do this only if the payoff were to become very much larger. However, raising the late retirement credit in the manner described here would not do this; rather, it would at best undo what is now a substantial penalty. As a result, we would not expect most workers to respond to a late retirement credit.

2. Reducing early retirement benefits by changing the early retirement reduction factor would save the Social Security system money but hurt the average worker.—The idea of reducing Social Security benefits at early ages while keeping the normal benefit at its present level is discussed in political circles from time to time. We estimate that reducing the age-62 benefit from 80 percent of the normal benefit to 55 percent of the normal benefit (and corresponding reductions for ages between 62 and 65) would increase retirement ages by an average of three months. Three months of extra work not be enough to restore the typical individual's benefit to its previous level. As a result, the Social Security system would save money but early retirees would end up poorer.

3. Increasing the normal retirement age while holding the early retirement age at 62 would save the Social Security system money but hurt the average worker.—The idea of increasing the normal retirement age is undergoing extensive debate at present. We considered the effects of raising the normal retirement age from 65 to 68 while holding early retirement at age 62 maintaining an early retirement reduction factor of 6⅔ percent per year. This would lower retirement benefits at all retirement ages, early as well as late. We estimate that this scheme would increase retirement ages by an average of 1.5 months, not enough to restore benefits to their previous levels. Once again, the social security system would save money but early retirees would end up poorer.

4. If early retirement benefits are reduced by changing the early retirement reduction factor or by increasing the normal retirement age, people who cannot postpone early retirement would be hurt the most.—Some older persons are more able than others to go on working if retirement incentives are changed. Those hardest hit by a reduction in early retirement benefits would be those who, by reason of ill health, loss of job, or other misfortune, do not find it viable to prolong their working lives. Penalizing early retirement would impose the heaviest burden on those least able to bear it.

Mr. FOWLER. Mr. Elliott.

STATEMENT OF JOHN DOYLE ELLIOTT, DIRECTOR, TOWNSEND PLAN NATIONAL LOBBY

Mr. ELLIOTT. I am John Doyle Elliott, Townsend Plan National Lobby. I am the director. You have my relatively brief, brief for me, written prognosis. However, I want to depart from it a little bit.

My first part is that I agree with the Commission on Social Security Reform in principle, except on the side where they start to lower benefits. Benefits are drastically low, have been from the beginning of this whole show. That is getting very close to half a century now, and the whole thing depends, any part of it, upon any suggestion on improving, not lowering, benefits.

On the rest of their findings I say hello and good luck. Any improvement is to the good. It is far off of it, though. I hate to put it this way, but I put it in my paper this way. For some 48 years now the Congress has been trying to find a way to finance social security. I doubt if it took us 48 days to know how to finance World War II. I suggest that that history be thought about real seriously.

The truth is that nothing has been done about social security from the first enactment except that which was done in the light of the minimum of judged political need and necessity, not to solve the problems. I am overjoyed today to see the questions coming up addressed to really looking at the problem, really looking at the realities, really seeking answers; not seeking to do the least politics will tolerate.

Now, I like to say this from my paper, second, just what do those two words "social security" really mean? Just look at the words "social security." To me and people in the Townsend movement from the very beginning, it means exactly what just about every human being that has ever walked the face of the Earth since civilization was first started has labored, worked, sweat, schemed, slaved and dishonestly killed for, even. Life, the support of, the attainment of, the possession of life, liberty and some reasonable pursuit of happiness. But that is what the two words "social security" really embody like no other two words yet heard in history to me.

It is the form of wealth upon which we depend. In all our economics, all of them, there is no such thing as an honest economy that doesn't contribute to life, liberty and the pursuit of happiness. Why? Because that is the form of wealth upon which we depend best to afford all other things, public and/or private. I see the light.

But I would like to say this, too. There is a self-evident way to finance social security. It is Uncle Sam's job. It is not a thing to turn over to the States, any more than World War II was. All taxes are income taxes and they are paid from nothing in this world except out of income from flesh and blood people, directly and indirectly. All taxes.

Taxes in monetary form have two extremes. One is net income, there is nothing smaller than that, and gross receipts, there is nothing bigger than that. Between them all things exist. The gross receipts tax should be adopted in place of the payroll tax to finance those adjustments. Social security and medicare—a part of it—is the substance of it all. Any movement from one is toward the other.

I do pray, I do pray that this form of taxation, Federal, local, State, every other way that everybody can understand and know almost automatically all about from the ground up. It covers them all. But if the gross receipts tax is used for the things that are social, economic benefits which are progressive in themselves, it is properly a regressive tax. It balances and fits. The net income tax is exactly the opposite and should be used for the overall maintaining of society and the expenses of Government itself; not for people spending. People spending is what social security is; not Government spending!

Mr. FOWLER. Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN DOYLE ELLIOTT, DIRECTOR, TOWNSEND PLAN NATIONAL LOBBY

Mr. Chairman, the Townsend Plan Movement hereby presents our concerns and interest in the proposals from the Commission For Social Security Reform. First, in principle, we strongly favor as, in our strongest judgment, long overdue increased revenue to provide advancing Social Security benefits. We view as most intensely in order the advance of such Social Security advances of revenue already scheduled by the Act to become in force in 1985 and 1990 to be advanced, respectively, to 1984 and 1988. We so view them, however, as no more than minor starts in that direction.

Further, we unconditionally oppose as utterly void of any justification efforts to seek any reductions of benefits. It is our judgement, strengthened steadily through the years gone by, insult to every particle of humane conscience even to think of human beings in our Country—of ALL places—to be dependent on income standards which dictate sickness!

It has constantly grown in our strongest sense of conviction that we have, from the very birth (very close to half a century ago, now) of the Social Security Act, held that the problems occasioning that Act originate from our permission of American People suffering economic misfortune—not from needs born by the well-fortuned!

In our view, in our constantly strengthening judgement, it is totally beyond justification, that NOW, very near to only two years short of an entire HALF-CENTURY since the enactment of our Social Security Act—here we all are after less than six months to the full length of forty-eight years still seeing our "national leaderships" struggling to find some "way to finance Social Security!"

Forty-eight years!!! Dear heavens! It's doubtful if it took forty-eight days to get into unquestionable finance of World War II!

Can there be any possibility of those two historic realities both embodying honest truth?

Just what do those two words "Social Security" really mean? To us they define just what all humanity has always labored and toiled to obtain to the fullest extent that they could—honestly and too often dishonestly to obtain; namely, the means to command the support of life, liberty and the pursuit of happiness. And we are being taught to regard Social Security as a burdensome cost! In truth it is exactly the kind of wealth upon which we depend best to afford all other things. How upside-down can human thinking get? What we need is much more Social Security—not less!

What we can't afford is the problem of not having it to the fullest possible extent!

Therefore, the Townsend Plan National Lobby unconditionally is opposed to any and all ideas and proposals to hold Social Security down as if it were a burden. Look—for what do we strive except for the support of life liberty and the means of pursuing honest happiness—in short Social Security?! What mankind needs most mightily—what our economy most fundamentally exists for is Life, Liberty and the greatest possible achievement of Happiness. Any economic influence, even thought, that does not support Social Security is wrong.

After spending very nearly half a century with upsidedown thinking,

Let's get right side up!

STATEMENT OF ALAN P. CLEVELAND, MANCHESTER, N.H.

Mr. CLEVELAND. Mr. Chairman, I am Alan Cleveland, an attorney practicing in the private retirement system. First, I thank the committee for permitting me to be here; and, second, for the special distinction of being the very last witness after a very long day of testimony.

Mr. FOWLER. That doesn't enable you to pass the plate or anything.

Mr. CLEVELAND. I don't think I will take 5 minutes of your time. Most of what I have to say is in the written statement, which I have submitted.

What I would like to address, however, is the sole recommendation, and rather narrow one, of the National Commission relating to private pension plans. The Commission proposes that amounts deferred by employees under so-called 401(k) plans be taxed as wages for social security purposes. As a young person, I fully appreciate the special utility of the 401(k) plan for the younger segment of the workforce today and oppose the recommendation of the Commission which would tend to discourage such plans.

Social security, a pay-as-you-go retirement system, ultimately will see an erosion of benefits, a stretch out of the normal retirement age, and higher payroll taxes, and all this will need be done prior to the time that the "baby boom" population reaches normal retirement age. The demographics insist on it. Whatever political cast is put on these measures, whatever the transition period, is really beside the point. The fact of the matter remains, the replacement income of a retiree needs to attain approximately 65 percent of his pre-retirement income in order for that individual to maintain a post-retirement standard of living equivalent to his pre-retirement standard of living.

Social security cannot be expected to be the sole source of retirement income for the baby boom population. A number of people who have worked in the pension area for a long time have been saying that more emphasis ought to be put on other means of providing for retirement income, notably on pre-funded private pension system. Congressional tax policies favor this and it has been taking effect.

The number of private pension plans are increasing. Approximately 50,000 to 60,000 more are being established each year. Pension plan assets are expected to reach $3 trillion by 1995, and that is explosive growth. Today plan assets are approximately $500 billion. Five years ago they were merely $225 billion. What we do need to do is continue those policies which strengthen the private retirement system and make it more attractive for employers to cover more employees.

The 401(k) plan is a new popular private retirement plan which permits employees to either accept as cash, as currently taxable compensation, a certain amount of money from their employer, or to elect to have that amount deferred to a tax-qualified pension plan. If that amount is deferred, it is not subject to taxation for either Federal income tax purposes or for social security purposes.

What the Commission has proposed, rather curiously, is that those amounts which are elected to be deferred under a 401(k) plan be taxed currently for social security purposes. Yet that amount would remain untaxed for Federal income tax purposes.

Right now a number of conventional thrift and savings plans are being converted to 401(k) plans. Many profit-sharing plan sponsors are considering modifying their profit-sharing plans, which do not presently allow participants an option but merely have an amount contributed directly into the profit-sharing plan, to permit the participant the election of receiving cash or deferring additional amounts under the plan. A number of other employers who would avoid the complexity of some plans look upon the 401(k) arrangement as a simpler way of providing pension benefits. The National Commission, without any data or factual basis given, has apparently seen the popularity of the 401(k) plan in the private sector as somehow erosive of payroll taxes and this Nation's retirement policies. No basis has been laid for this fear. Until such time as appropriate study is given as would provide a factual justification for implementing this rather sweeping and summary change, I respectfully recommend that the Commission's proposal relating to 401(k) plans not be adopted.

Mr. FOWLER. Thank you very much.

[The prepared statement follows:]

STATEMENT OF ALAN P. CLEVELAND, SHEEHAN, PHINNEY, BASS & GREEN, PROFESSIONAL ASSOCIATION, MANCHESTER, N.H.

The Report of the National Commission on Social Security Reform includes among its recommendations a proposal effecting a change in present law—i.e., that employee salary deferred under a tax-exempt retirement plan qualified under section 401(k) of the Internal Revenue Code be deemed "wages" subject to OASDI-HI taxes.[1] this proposal is not expected to produce current income to the OASDI and HI programs, but rather to discourage the formation of private retirement plans qualified under Section 401(k). For the reasons set forth below, the proposal is an ill-considered erosion of the private retirement system, limits the opportunity for individual retirement planning by the younger members of the workforce, and is likely to have a long-term detrimental effect on national pension policy.

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[1] See Report of National Commission on Social Security Reform, Jan. 20, 1983, Ch. 2, (¶17) "Coverage of Payments Under Salary Reduction Plans"

COMMONALITY OF THE SOCIAL SECURITY AND PRIVATE RETIREMENT SYSTEMS

Pension, profit-sharing and other tax-qualified plans are established by employers for the purpose of providing retirement benefits for their employees. Private retirements plans and Social Security have the common objective of providing replacement income so that the pre-retirement standard of living of retired employees can be maintained. Most retirement planners believe that, as a rule-of-thumb, aggregate replacement income, including Social Security benefits, equalling 65 percent of pre-retirement income is needed to meet this objective.

There are fundamental differences between private pension plans and Social Security, however. Social Security was originally designed to provide a minimum income floor just sufficient for the retiree to subsist. Private plans are intended to build on this floor by providing additional benefits so that the retiree can live with dignity and with the least disruption to his or her pre-retirement life pattern. Social Security benefits under present law are non-taxable to the retiree. Private plan benefits are usually taxable income to the retiree when received. Social Security is an intergenerational system that transfers income from the current workforce to retirees. It is a pay-as-you-go system. Private plans usually provide benefits to retirees out of previously accumulated plan assets. The public perception is that Social Security is in financial difficulties and unlikely to provide the same past level of benefits to younger members of the workforce. Indeed, the findings and recommendations of the National Commission confirm this view. For young people, the private pension system, rather than Social Security, is seen as their primary and most secure source of future retirement income.

The demographics of the "baby-boom" population of younger workers supports the view that a pre-funded private retirement system should not be subordinated to a pay-as-you-go Social Security system. After the year 2030, when the majority of the baby-boom population has reached retirement age, the current "dependency ratio" of 3 workers per retiree will have shifted to a ratio of 2 workers per retiree. Many experts believe that a dependency ratio of less than 2.5:1 cannot be sustained by a pay-as-you-go system without a severe curtailment of the standards of living for workers, or retirees, or both. The attached graphic demonstrates the relationship between projected dependency ratios at given normal retirement ages (Appendix 1), and the implications of the present trend to early retirement at age 62 (Appendix 2). Even at the current 3:1 dependency ratio, today's pay-as-you-go Social Security system is in serious trouble. Projecting present retirement trends, there appears to be no way Social Security can operate in either the short- or long-term without benefit cutbacks before the baby-boom population reaches retirement age, regardless how these reductions are characterized or over what transition period.

It is the unhappy charge of this Congress to make those adjustments necessary to strengthen the Social Security system, and to determine whether implementation of what the National Commission has recommended would accomplish this. The single recommendation of the Commission's Report (¶17) directly relating to private retirement plans, although not demonstrably bolstering the Social Security system, would restrict the present scope of individual pension planning by the younger elements of the workforce.

THE NEED FOR AN ENHANCED PRIVATE RETIREMENT SYSTEM

The 1981 Report of the President's Commission recommended a shift from dependency on pay-as-you-go financed federal programs, such as Social Security, to a balanced program of employee pensions, social security and individual effort.[2] Historically, Congress has promoted the voluntary establishment of private retirement plans by enactment of favorable tax laws. Recent advancements of this favorable tax policy toward individual retirement planning are the Economic Recovery Tax Act of 1981, which made Individual Retirement Accounts available to all wage-earners and increased IRA deductible contribution limits to $2,000; and the Tax Equity and Fiscal Responsibility Act of 1982, which liberalized Keogh plans and doubled employer contribution limits to $30,000.

Federal legislation has always had a dominant influence over both the magnitude and direction of growth of the private retirement system. By any measure, either in terms of employee coverage or aggregate fund assets available to pay future benefits, the private pension system is assuming an increasingly important role in providing for the future retirement needs of the nation's workforce. Although it is generally agreed that Social Security coverage under current law has now stabilized at 90 percent of the private sector workforce, there remains some controversy as to the present and projected levels of employee coverage by pension plans. The President's Commission on Pension Policy stated in its 1981 Report that private plan coverage had stabilized at about 40 percent of the present workforce. The Employee Benefit Research Institute and others challenge this view, stating that in fact approximately 68 percent of non-governmental, non-agricultural employees were covered by private plans.[3] The EBRI study also challenged the view of the President's Commission that the growth of private plan coverage had leveled off. Appendix 3, which shows incremental formation of new plans through 1981 according to Treasury data analyzed by the Profit-Sharing Research Foundation, indicates that EBRI may have the better side of the argument.[4]

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[2] *Report of the President's Commission on Pension Policy,* Feb. 26, 1981. *Also see Final Report of the National Commission on Social Security,* March 1981, Chapter 3.

Another measure of the strength of the private retirement system is accumulated plan assets available for payment of pension benefits. In a study commissioned by the U.S. Department of Labor and performed by ICF, Inc., private pension assets, which reached $225 billion in 1975, and $420 billion in 1981, are projected to increase to over $3 trillion in 1995. This conservative projection, which enjoys a broad consensus of expert opinion, promises that the pre-funded assets of the private retirement system, if allowed to grow, will be sufficient to meet many of the future retirement needs of the younger segment of the workforce.

It should be further noted that while private plan assets are being accumulated for the purpose of paying future retirement benefits, they also contribute enormously to the capital formation of this nation as a form of forced savings. Social Security taxes, on the other hand, represent a dissavings and inhibit capital formation.[5] Thus, an enhanced private pension system not only serves national retirement objectives but also national economic recovery goals of increased capital formation and productivity.

As to the direction or form the private retirement system takes, this too is greatly influenced by Federal legislation. For example, it is generally recognized that defined benefit type retirement plans are in decline today, and being replaced by defined contribution type plans,[6] largely as a Congressionally unintended consequence of the Employee Retirement Income Security Act of 1974, and its progeny of rules, regulations and amendments.[7]

At this time, there is a great deal of interest among employees and employers in the private sector in establishing a particular type of defined contribution plan—the so-called 401(k) plan. Enthusiasm for this type of private pension plan would be severely dampened by implementation of the National Commission's Recommendation 17.

THE 401(K) PLAN

In legislation the Revenue Act of 1978, Congress added Sections 401(k) and 402(a)(8) to the Internal Revenue Code, which permitted treatment of a "cash or deferred arrangement" as a tax-qualified defined contribution plan. Essentially,

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[3] Employee Benefit Research Institute, "Retirement Income Opportunities in Aging America: Coverage and Benefit Entitlement", July 9, 1981. *See also,* U.S. Department of Labor, LMSA/PWBP and Daniel J. Beller, "Patterns of Worker Coverage by Private Pension Plans", August 1980.

[4] Both the President's Commission and EBRI do agree that about 70 percent of current workers between the ages of 25 to 29 (as of 1981) can expect to receive retirement benefits under private plans.

[5] *See* a trilogy of "Working Papers" of the President's Commission on Pension Policy of September 17, 1979, by Mordecia Kurz and Marcy Arvin, entitled "Private Pensions and Capital Formation", "Social Security and Capital Formation," and "The Funding Issue and Modern Growth Theory". *See also* a "Working Paper" of the National Bureau of Economic Research, Inc., "Private Pensions and Public Pensions: Theory and Fact", No. 902, June 1982, by Alan S. Blinder.

[6] "Defined benefit" and "defined contribution" type plans are distinguished as follows: Under a defined benefit plan, employees are promised a fixed and determinable benefit at a specified retirement age. Usually the promised benefit is tied to the employee's earnings, or length of service, or both. Under a defined contribution plan, the employee's annual rate of contribution is fixed, rather than the benefit to be received by the employee. The employer contribution is usually a percentage of the employee's earnings. The benefit payable at retirement is based on money accumulated in each employee's individual account. Such accumulated money will reflect investment gains or losses, and, in an (employee) contributory plan, the value of the employee's contributions.

[7] See, *Economic Survival in Retirement: Which Pension Is for You? Employee* Benefit Research Institute, 1982. Also see, *Proceedings of the 33rd Annual Meeting of the Conference of Actuaries in Public Practice,* October 7-9, 1982, Cambridge, Massachusetts.

Section 401(k) enables employees to save money on a tax-exempt basis by electing to defer a portion of compensation to their individual accounts held under a qualified plan. If the requirements of Section 401(k) for full vesting, non-discrimination and limited withdrawability are met, the employees' deferrals are excluded from gross income under Section 402(a)(8), and from FICA and FUTA wages as well.

The Internal Revenue Service on November 10, 1981 issued proposed regulations on 401(k) plans, which are expected to be finalized within the next several months. It is evident from the basic framework of these regulations that the 401(k) arrangement will be among the most non-discriminatory plans permitted to be qualified under the Code. Presently there is substantial activity in converting conventional thrift or savings plans to 401(k) plans. It is expected that many profit-sharing plans will also be amended to included the 401(k) participant option of electing between cash or deferred contributions. Additional employers who either cannot afford or do not wish to take on the legal burdens of sponsoring a more complicated employee retirement plan may further have an interest in establishing an employee-pay-all 401(k) plan.

Attached as Appendix 4 is a table showing the advantage to the employee, expressed in terms of benefit cost ratios, of participating under a 401(k) cash or deferred arrangement as compared to alternate contributory retirement plans. From the employee standpoint, there is no plan with a higher payback of benefits to cost than the 401(k). If the participant is young (under age 45), the 401(k) plan, as a type of defined contribution plan, is more likely to provide a higher level of retirement benefit than a comparable defined benefit plan. Among participants who are young and female, that group having the highest rate of employee turnover and therefore least likely to become vested in benefits accrued under most other pension plans, the full and immediate vesting requirement of 401(k) plans is an especially valuable guarantee.

In sum, establishment of 401(k) plans, as contemplated under the Revenue Act of 1978, would raise the level of future pension benefits available to that segment of the workforce which will be in greatest need of additional retirement income supplementing that now being reduced under Social Security.

RECOMMENDATION 17 IS INTENDED TO DISCOURAGE 401(K) PLANS

The National Commission recommends under Paragraph 17 of Chapter 2 of its Report that amounts deferred under 401(k) plans should be subject to OASDI-HI taxes. Stated in support of the recommendation is the observation that "[I]f the recommendation is not followed, it is quite probable that many such plans will be instituted . . . ." Senator Dole, a member of the Commission, incorporates Recommendation 17 under Section 305 of his bill, S.1, and offers an identical rational for the measure: "[I]f the proposal is not enacted, it is quite probable that many such plans will be instituted . . . ."

Apparently there is no hard data in support of Recommendation 17. Rather, there only appears a conclusory statement suggesting more fear than fact that the private retirement system and the Social Security system somehow have conflicting objectives in providing for the future retirement needs of the national workforce. To adopt this view would signal a sharp change in established national retirement policy, which has consistently sought to foster a pre-funded private retirement system to relieve dependence on a pay-as-you-go Social Security system. Immediate adoption of Recommendation 17 is being urged where no present problem has been identified and no data presented as to the consequences to either the Social Security or private retirement systems.

RECOMMENDATION 71 REQUIRES FURTHER STUDY

The introductory paragraph of a 1980 EBRI Issue Report, Retirement Income Policy: Consideration for Effective Decision Making, still makes good common sense: "Each day we are confronted with new surveys, reports studies, panel recommendations and policy proposals intended to inform us about, or to alter and improve, public and private retirement income programs. Before any decisions can be made based on this material and the data already available, decision-makers must assure themselves that the real problems have been identified, that related issues have not been ignored and that the treatment of an issue has been adequate and thorough."

As a practitioner in the area of private plans, and one who deals most often with small plans sponsored by small business, I respectfully offer the following: The best means of encouraging the private sector to accept responsibility for providing a greater share of future retirement income is for Congress to be restrained in enacting yet more federal legislation placing special limitations on private pension plans.

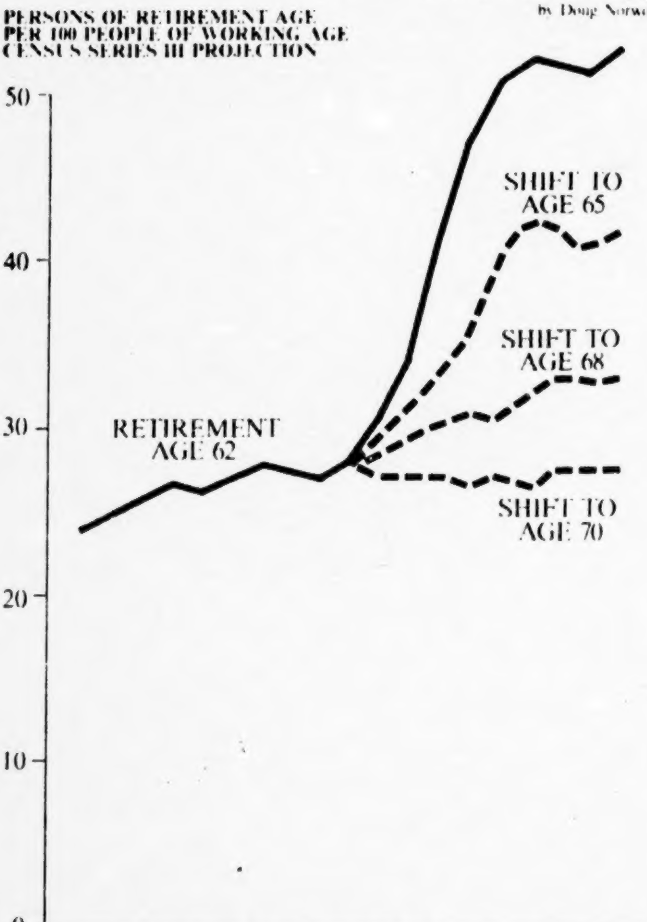
This area is already amazingly complicated. With added legislation, private pension plans would become even more difficult to establish and operate. If let alone, or a broader scope of action by plan sponsors permitted, private pension plans can and will bridge the void left by a deemphasized Social Security system.

In the absense of substantiated data showing that the growth of 401(k) plans is indeed detrimental to the Social Security system, and that such costs, if any, outweigh the increased retirement benefits provided by such plans under the private pension system, Recommendation 17 should not be enacted.

Appendix 1

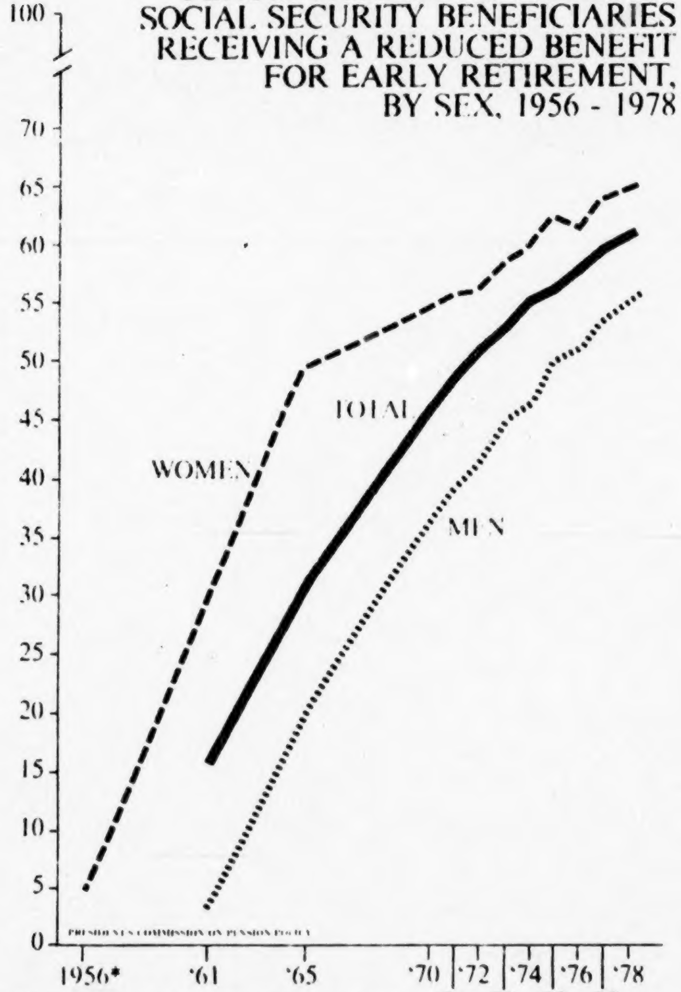
DEPENDENCY RATIOS

Source: OMB Technical Staff paper,
by Doug Norwood



Source: President's Commission on Pension Policy, 1979.

Appendix 2



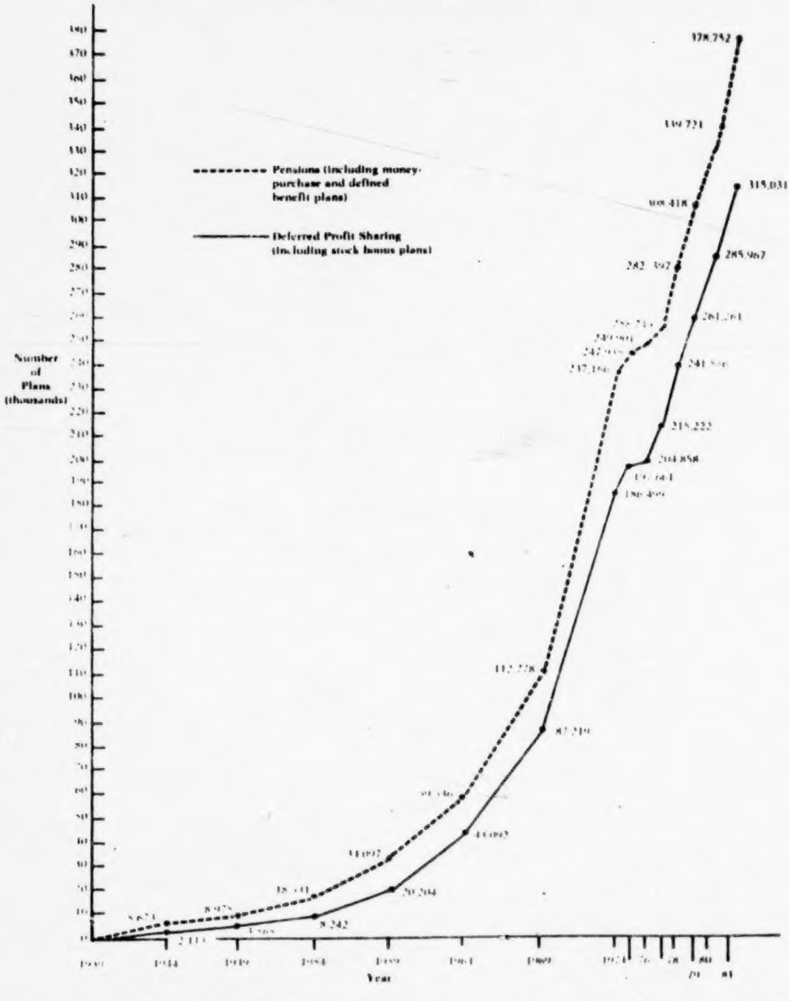
PERCENTAGE OF ALL RETIRED SOCIAL SECURITY BENEFICIARIES RECEIVING A REDUCED BENEFIT FOR EARLY RETIREMENT, BY SEX, 1956 - 1978

*Women were given an early retirement option in 1956

Source: OMB Technical Staff paper by Doug Norwood, 1979.

Appendix 3

Cumulative Growth in Number of Qualified Deferred Profit Sharing Plans and Pensions in the United States—1939 to 1981[1]



Source: Profit Sharing Research Foundation calculations based on U.S. Treasury Department reports.

[1]Plan approvals minus plan terminations.

Appendix 4

CODA vs. ALTERNATIVES
RE: INCREASED RETIREMENT BLNEFITS

		Voluntary Nondeductible Qualified Plan Contribution	IRA	Employee-Pay-All CODA Sec. 401(k)	Matched Conventional Thrift Plan	Matched CODA Sec. 401(k)
1.	Employee contributions (20 years)	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
2.	Employer contributions (50% match)	0	0	0	20,000	20,000
3.	Investment growth	86,005	86,005	86,005	129,008	129,008
4.	Age 65 account balance (1 + 2 + 3)	[illegible]6,005	126,005	126,005	189,008	189,008
5.	Employee tax savings from deduction or exclusion (40% marginal tax rate)	0	16,000	16,000	0	16,000
6.	Net investment cost to employee: (1 - 5)	40,000	24,000	24,000	40,000	24,000
7.	Taxable income at distribution	86,005	126,005	126,005	149,008	189,008
8.	Tax if distribution received in a lump sum	12,211	50,402	19,811	25,072	35,172
9.	After-tax value of distribution (4 - 8)	$113,794	$ 75,603	$106,194	$163,936	$153,836
10.	Benefit cost ratio (9 ÷ 6)	2.84	3.15	4.42	4.10	6.41

Assumption: 10% year investment return
Ordinary income tax at 40% rate on IRA distribution, tax on others determined using 1984 rates and 10-year averaging.

Mr. **Archer**. Mr. Cleveland, could you give us an example of one of the more common implementations of the 401(k) plan?

Mr. **Cleveland**. Yes, sir. Do you have a copy of my written statement?

Mr. **Archer**. I am sure it is here somewhere. I don't have it right in front of us.

Mr. **Fowler**. We have it.

Mr. **Cleveland**. Appendix 4 of the written statement in fact includes a table which makes a comparative analysis as between IRA's, thrift plans——

Mr. **Archer**. Just give me an example of a common 401(k) plan.

Mr. **Cleveland**. A common 401(k) plan would permit a participant to elect to defer, let's say, up to 15 percent of his compensation, although that would be very unusual. Most participants would not defer more than 5 percent of their compensation. So if you have an employee who makes $200 a week, and he is participating under a 401(k) plan, he would likely defer $10 per week into the plan where it would not be taxable for either Federal income or social security purpose.

So it accrues. Now it accrues and is invested and reinvested over time essentially like your IRA. At the end of the line, when the participant leaves the employer and is ready to retire, there is a large amount of money in his individual account that is available for his retirement, essentially like a savings plan.

Mr. **Archer**. The interest or income on the fund during its life is tax exempt, also, as an IRA?

Mr. **Cleveland**. Yes, until such time as it is paid out.

Mr. **Archer**. A company would have one of these plans in addition to its regular pension plan as an option available to an employee.

Mr. **Cleveland**. Yes, sir.

Mr. **Archer**. Then the employee would also have the opportunity to go outside and have his own separate IRA account, too? Is that correct?

Mr. **Cleveland**. That is right, sir.

Mr. **Archer**. Thank you very much.

Mr. **Fowler**. We have all sorts of luxury of ruminating here at the end of 5 days. There certainly has been a welter of suggestions along the lines of that advocated, Mr. Wootton, by you and others; that somehow either social security be made optional or that we mandate a super IRA plan. And I guess we have had more of that sort of recommendation than anything else as not only a solution to the problem of social security financing, but also we have heard from most of the people that testified that that would result in this tremendous capital pool and would make all these wondrous things happen in our economy. And we would all like to see that.

We are looking for a way to fund the system. One of the ironies is, and I think I am right here—if I am not, I will let the staff correct me. But we have been operating on several assumptions. One, is that thus far—and these are approximate figures, but I think they are the figures the Commission used—thus far, social security has been a good deal. That those who are drawing benefits are drawing something like five times more, on the average, than what they put in.

We have also been operating, I think, under the assumption or with the statistical data, whether we want to believe it or not, that if the Commission financing recommendations are adopted by the Congress, that it would cut that sweet deal approximately in half. But that anticipated, at least until 2010, that beneficiaries will still draw something like 2½ times what they paid in. So that I find it, I guess ironic is the only word, that there is such dissatisfaction with the present system, except for the fact that I know noboby wants to pay any more taxes.

But if you are going to get a 2½-fold return in a benefit structure or have gotten a fivefold return, I find it difficult to understand, at least to date, why people are so concerned about the system as presently structured. Anybody want to comment on that?

Mr. RYDBERG. I don't think it would be necessary, Mr. Chairman, to do all the things they are trying to do. If they will put that option in and let those millions who can manage to get along on what they have managed to save in their retirement funds, let them withdraw and you won't have any more Consumer Price Index, no more payments. You have got millions in this country who would go for that.

Mr. FOWLER. Go for the half day/half work plan you propose, is that what you are talking about?

Mr. RYDBERG. Well, that, I think there would be a minimum of 10 million that would go for that. But I am talking about when they reach eligibility time that they be allowed to withdraw because they don't need social security help. What does a millionaire need $5,000 a year for, tell me, and keep adding Consumer Price Index to it. Let him withdraw it and let the guy who needs it for catastrophic medical needs, some of them, 15,000, 20,000 dollars' worth of medical bills, they are losing their homes, let them withdraw it.

That is an insurance. Social security is an insurance policy. It is not a retirement plan. It is a supplement. And I didn't say this before, but when you integrate social security with all the studies I have made of our plans across the country with other retirement pension funds, it turns out not being a pension fund, retirement fund. It turns out being social security as a base with a few fringe benefits. And it is very discriminatory. Social security has been discriminatory.

Mr. FOWLER. Well, if we could have a new vocabulary. We probably need somebody here to help us out, because what is one man's pension is another man's security system and one man's insurance policy. All we know, and I don't like pollsters—I had better stop there. There are a lot of other things I don't like, too.

But what we do know is that—and I don't have the figures right in front of me—but in hiring the best pollsters in the country all we know is that you have got something like 73 or 74 percent of all Americans, male and female, over 62 years old dependent for at least 50 percent of their income on social security.

Now that is an incredible figure regardless of how we got there or what it was intended to do. The fact of the matter is, as Mr. Elliott would say, it is there. And that fact, I think, it seems to me involves the dilemma. But we have had some very good suggestions given, not only by this panel, to add to our data base, but many panels.

The thing that is interesting to me—and I will quit here and let everybody go home——

Mr. **Elliott**. There is a counter-question to that question, sir.

Mr. **Fowler**. Yes, sir, Brother Elliott.

Mr. **Elliott**. If someone can set aside now $10,000 or $5,000 or $30,000 a year over a lifetime for an IRA account, for example, what has been stopping them? This is a phony from top to bottom to give banks a great grip, a new grip they've not had before, or dreamed of on time-limited accounts. What is stopping people—if they can really do that, what is stopping them?

Mr. **Fowler**. That is not the problem. The problem is a lot of people don't do it because we haven't been able to make them. It is like our tax policy around here. We enacted this big tax bill in 1981 to encourage production, and all the business people said they were going to invest and create all these jobs. And we gave them accelerated depreciation and lowering of maximum tax and things that big business has been advocating for 20 years, and we did it. After we did it, we don't know whether they are going to invest in productive, income-producing, job-producing assets or whether they are going to go out and buy Krugerrands and art objects.

Well, it is fine in theory to say let people have their own pension plan. But those who don't go out and invest in their own pension plan, then you risk having American cities looking like Calcutta.

Mr. **Elliott**. But when we say make them, there is your tax again.

Mr. **Fowler**. Well, that is what I was discussing with the man from Liberty Lobby.

Mr. **Rydberg**. You can't predict where they are going to be 30 years from the day they begin. But when they are there and they are well-off, you don't have to keep paying them. Give them the option to withdraw.

Mr. **Fowler**. Mr. Fields, I will let eveybody have one more bite at the apple.

Mr. **Fields**. In answer to the question that you raised about why is it that people are concerned about social security, you partly answered your own question just now when you spoke about economic growth and the need for investment; what has happened, because we have a pay-as-you-go system, is that past generations have gotten the sweet deals that you referred to because they were getting shares in the future productive capacity of the next generation.

They didn't pay in as much as they got back because we had a richer economy. I think the fear is that the present generation of working people will not have a richer economy in the next generation to draw on. And if we don't have a richer economy, not only will the current generation, people my age, have to pay for our own retirement, we will also have to pay the obligations that have been incurred for people who are now retired. And I think that is the worry in a nutshell.

Mr. **Fowler**. Well, that is the fear; whether it is rational or not is the question.

Mr. **Archer**. Will the gentleman yield?

Before we get off that, Mr. Fields, I don't think it was because we had a richer economy. We did have more people working relative to the number of people retired, but those people who were working still paid in a much smaller percent of their total productivity than the workers today are paying or that the workers in the future are going to pay. And it has been a superb deal for those people who have retired or are about to retire right now. Superb.

Mr. FIELDS. Mr. Archer, you raised a question of a previous panel about how much have the benefits gone up, and you answered it for them because they didn't have the answer. And your answer was a very good one, showing how, in fact, the real benefits had risen over the last 15 years in part because we have an economy that has grown. At some point the fear is that that is going to stop.

Mr. ARCHER. It is already in the process of stopping.

Mr. WOOTTON. The thing that a lot of people don't want to come to grips with is that a pay-as-you-go system is limited to what you have gotten through all the gimmicks of broadening the tax base. In other words, getting the workers-to-beneficiary ratio as good as you can get it, which bringing these new people in is going to do. But, all the gimmicks are just about gone. So when you get to a stable pay-as-you-go system, then you can't give benefits to people that exceeds the rate of real growth of wages.

The rate of real growth of wages is somewhere between 1 and 2 percent. So that when you talk about the possibility that the benefits are going to continue to be in excess of 1 or 2 percent, then it is mathematically required that you raise taxes particularly when your demographics are deteriorating, which they are, and particularly when you consider the possibility that the taxes themselves strangle the economy, cause unemployment and then reforce the amount of revenue you can generate out of the system. So that you have to raise taxes for each succeeding generation, to give them more than that 2 percent.

You have to raise taxes. It is essential. So with any given fix of the system, it is unrealistic to say that that is the last tax increase that you are going to have, with the political pressure you are going to have, to not cut benefits. And to not cut benefits means that you are not going to give people less than what the market would give them, when they are seeing the alternatives that they can invest in.

The pressure that you are seeing today is a direct result of the advertising of IRA's. Ads for the IRA's have said, "Put $2,000 in the bank and you can be a millionaire by the time you retire." And people are looking at the FICA window and are seeing that $2,000 is going to the Federal Government, and soon they are going to see that $4,000 is going to the Federal Government for the people who are in the 30 to the 35 range. So that the result is going to be that you are going to have pressure on the social security system to keep the benefits higher than a stable pay-as-you-go system can pay.

Mr. Pete Peterson, who has done a new study and wants to drastically cut benefits in order to prevent this tax spiral, is talking about essentially a 60-percent cut in benefits to be able to come back down to that 2 percent rate of return or that 1 percent rate of return. Well, that is never going to be politically or morally possible. That is the dilemma that we are facing.

The system is going to continue to require these tax increases. It is a vicious cycle, because the tax increases strangle the economy and, reduce revenue. The pressure that the population is giving for some kind of reform, is to shift the burden off of people and onto capital where it belonged all along, onto the capital that they produced. That pressure is coming from a realization that they can just get more somewhere else.

But from a policy point of view the people that are concerned about the economy as a whole, the policy question is are we going to have a strong enough economy to even support very meager benefits. The people that are pessimistic, and the New York Federal Reserve are probably as pessimistic as anybody that have come out with any figures, say that we are headed toward 35 and 45 percent rates. We are headed for those rates a lot faster because of the dynamics of the effect on the economy.

So I would say that there are lots of people who have lots of different concerns, but the basic concern is laid at the foot of the pay-as-you-go nature of the program. We are trying to do better than that program can do, and the gimmicks are just about gone, and that is why we are in a crisis.

If this was easy, I wouldn't be spending my time right now trying to educate the American people about an alternative. If I thought that this last Commission could have sat down in a few days and come up with an easy solution that everybody would have been happy with, the way they did in 1977, and said that the system would be fixed for the next 30 or 40 years, then there wouldn't be any hope. You wouldn't be on the cover of every major news magazine, and it wouldn't be the major story 2 or 3 days out of every week.

It is a major story because the gimmicks are gone. And you are not going to be able to solve the problem without looking at fundamental reform.

Mr. **Fowler**. I don't disagree with much of your analysis. It is not a major story because the gimmicks are gone. It is a major story because the richest Government in the world ought to have a retirement system for their elderly. The question of how you structure it and how you pay for it is a real one. You know the irony is that you really—as long as we were in this inflationary period and a healthy economy—the growth years over the 20 years until about 6 years ago—the only universally popular Federal program was social security.

Now, in my 18th year of political life, the only Federal program that I never heard criticized was the social security system until about 1976. It was never mentioned. Do away with welfare. Do away with foreign aid. Do away with all the deadbeats. Do away with everything. But everybody in the room was affected by social security, their parents, their aunts, their uncles. We throw our old people out of the house. We don't want them around. We don't want to look after them. We get rid of old people, and we live our little nuclear lives.

Now, the people such as the members of this panel, and most of our panels, they will take care of themselves. They will buy IRA's.

They will treat social security in its historical perspective as a supplement to retirement, and they have got all sorts of innovative ways to help the economy and use the capital pool while they do it. But there are an awful lot of people out there that simply don't do it. We haven't figured out a way, like advertising for the IRA, to entice them.

Ms. Baum?

Ms. **Baum**. In line with that and also in response to your original question, when you were quoting figures, I am not sure what figures you were quoting when you said how much people get back relative to what they put in. But what is relevant is how much they get back in comparison to what they would get had they made a private investment.

I am concerned about the proposals for voluntary withdrawal from the system, because it is clear that the people for whom voluntary withdrawal or use of something like an IRA is most beneficial are those who have high incomes and high marginal tax rates, and the people who are most dependent on social security are people in lower income brackets. And also the rate of return is higher for people in low income brackets who get back more for every dollar that they put in.

So if we had people in high incomes who withdrew from the system, there would be even bigger pressures on the system and there would also not be a strong political constituency so concerned as we have today. So I think those proposals have to be looked at very cautiously.

Mr. **Rydberg**. There are billions of dollars in the retirement pension funds throughout the country. Why not let them help social security by paying to those who are eligible their retirement fund, their regular pension, and continue working. This way they will have more money to take home.

Mr. **Fowler**. What do you think about that, Mr. Cleveland?

Mr. **Cleveland**. I am not quite sure. Mr. Rydberg's suggestion is that people who are presently employed receive retirement benefits. It raises a lot of technical problems. I don't know if that is going to really solve the problems we are trying to address here.

Mr. **Rydberg**. They would continue uninterrupted work going into half-day when they are eligible for their own pension, collect it and combine that with their regular half-day pay. And they would bring home more than if they quit altogether and brought home social security. They wouldn't have to pay.

Mr. **Cleveland**. There is no conceptual problem with that. But on another point raised earlier I would like to respond. What I am suggesting here is not that the private retirement system entirely replace social security, because the fact of the matter is that with a voluntary private retirement system, even with all the tax incentives and such, it is unlikely, at least in my opinion that you are going to get much better than 70 percent or so coverage of the private sector work force. Yet, the National Commission's recommendation is to actually discourage 401(k) plans, which is incomprehensible to me given the need for a prefunded private retirement system. If somebody wishes to do something by way of supplementing that retirement income provided under social security, if someone wishes not to be solely dependent on the political vicissitudes of a pay-as-you-go Federal retirement program, why should they not be permitted to do so? Why should this individual retirement planning be taxed and discouraged, which is obviously the thrust of the Commission's recommendation?

There is no inconsistency between the social security system and a private retirement system. They should be mutually supportive. If we have a work force solely dependent on social security, we are going to have political horror shows from now until the year 2030 that will make this look like the ticket line.

Mr. FOWLER. But the fact of the matter is over 70 percent are right now.

Mr. CLEVELAND. Covered by private plans?

Mr. FOWLER. Dependent upon social security.

Mr. CLEVELAND. What I am saying, sir, is that right now, depending on whose figures you are going to take, between 50 and 60 percent of the work force is covered by private pensions. Right now approximately 90 percent of the private work force is covered by social security. The point of my comments is not that the private pension system will replace social security but is desperately needed to supplement it in the long term.

Mr. FOWLER. I understand that.

Mr. WOOTTON. Mr. Chairman, I would just like to make one response about what this does to the low income people. There is no question that when you have your own IRA or your own individual kind of retirement program, you only get back what you pay in plus the interest in the investment. There is no redistributional effect.

But for the minimum wage worker with the kind of taxes he is facing in the next 30 and 40 years, he can expect to have $287,000 if he is only talking about 6 percent rate of return. He can get 28,000——

Mr. FOWLER. He puts in how much?

Mr. WOOTTON. He just puts in what he and his employer would have been putting into social security. He could have almost $300,000. He could buy a lifetime annuity of $28,000 that would pay his wife $18,000 after he died and social security in today's dollars is only going to give him $10,000 and is going to give his wife $6,000 if he died.

We are at that stage of the system where the taxes are getting to be so high that the amount of money that, if they get a positive rate of return in the market, that it has an enormous impact. If you see these runouts where you compare the benefits put in with the amount of interest that is earned, when you talk about somebody having $770,000 in the bank as a result of 8 percent interest, the $550,000 of that is the interest that has been earned because of the compounding of the interest.

So the fact that money has been added to productive activity and earning a rate of return on the capital is what makes it so magical. Einstein said, when somebody asked him what was the most amazing invention of mankind he said, "compounded interest." It is an amazing thing. When people see the tables, it absolutely shocks them. But that is the magic of an IRA, the magic of compound interest.

Mr. **Elliott**. I think it is self-evident, sir, that if it weren't for social security benefits and a lot of other—veterans benefits, for example—this depression of ours now would have been a lot worse, and a lot sooner. And I think that is self-evident. And I don't care whether we get it publicly or privately or both, any mixup at all, the point is that social security is a form of wealth upon which we depend to get everything else.

If social security had invested in Treasury, they would have been way ahead now.

Mr. **Fowler**. Well, ladies and gentlemen, these hearings, like a long distressed love affair, must finally come to a close. It is hard to bid goodbye.

Mr. **Elliott**. Maybe they are just opening up.

Mr. **Fowler**. I thank you all for your contributions and your patience very, very much.

This is the distinguished chairman, the gentleman from Texas, Mr. Pickle. Here he is in life.

Chairman **Pickle**. This completes the hearings for this week. I think Mr. Fowler may have said that. There is a possibility that some Congressman or two might feel that they were out of town and still wanted to submit testimony. We will receive testimony as far as the middle of next week.

There is a possibility sometime in the middle of next week we may proceed to markup. We don't say that officially, but we are just letting you know that we are trying now to reread and reevaluate the testimony, yours included, and as soon as we have done that, then we are going to proceed to look at the possibility of markup.

We are saying that just so the public will know what our general schedule may be.

We thank you very much.

[Whereupon, at 5:25 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

STATEMENT OF THE U.S. GENERAL ACCOUNTING OFFICE

Chairman: The General Accounting Office, as an independent agency reporting to the Congress, has made numerous studies of the social security system. Drawing on this experience, we wish to share our observations regarding the recommendations of the National Commission on Social Security Reform.

In January 1983 the Commission reported its recommendations for resolving the short- and long-range problems of the social security trust funds. These recommendations were based on a year long study by the Commission and represented a bipartisan approach for dealing with the trust funds' financial problems.

Before deciding on options to recommend, the Commission first defined the extent of the problem. It determined that the short-term deficit of the trust funds was between $150 and $200 billion through 1989 and that the long-term deficit over the next 75 years averaged about 1.8 percent of taxable payroll. With this as its target, the Commission chose options which it believes will resolve the entire short-term deficit and about two-thirds of the long-term deficit.

The Commission has stated that its final recommendations are a result of compromise. The recommendations attempt to balance three methods for eliminating the projected trust fund deficits—increasing taxes, curtailing benefits, and providing general revenue assistance to the trust funds. The extent to which the short- and long-term needs are met will depend in part on future economic and demographic factors, and upon additional actions taken by the Congress to address the remaining deficit which the Commission's proposals will not rectify.

We are providing the following information for the consideration of the Congress in its deliberation of the Commission's recommendations.

PAST REFORM EXPERIENCE COULD REPEAT

In Secretary Schweiker's testimony before this Committee on February 3, 1983, he recalled that the trust funds were in a similarly difficult financial position in 1977 and that the amendments passed by the Congress in 1977 were to have addressed the short- and long-term gap between expeditures and revenues. The changes adopted by the Congress included increasing the social security tax and reducing certain benefits. Using what were considered reasonable rather than the pessimistic economic assumptions available in 1977, it was projected that adequate funds would be available within the social security trust funds to meet benefit payments until beyond the year 2025. Quoting Secretary Schweiker's February 3 testimony:

"But economic assumptions that seemed reasonable at the time proved wrong. Beginning with 1979, economic performance has been substantially worse than even the pessimistic assumptions made in 1977. Thus, by 1980 Social Security was once again facing a financing crises."

In 1982, the National Commission used pessimistic actuarial assumptions to identify the size of the short-range financial deficit in the social security trust funds. However, even those assumptions have now been brought under some question by revised estimates made available by Social Security's Office of the Actuary which show the estimated shortfall will be $198 billion, with the Commission's recommendations meeting only $180 billion of that amount. Therefore, should economic conditions prove to be less favorable than those anticipated by the Commission, the Congress would be faced with the need for additional short-term social security changes to bring about financial stability. It is also true, of course, that the economy might perform better than indicated by the most current projections. In that event, the magnitude of the financial problem faced by the trust funds may diminish. In our judgment, however, it would be imprudent to base policy on the more optimistic projections.

LONG-TERM FINANCIAL REQUIREMENTS PARTIALLY SATISIFIED

While the Commission was able to reach a consensus for meeting the short-range financial requirements of the trust funds, the set of recommendations it offered will meet only about two-thirds of the projected long-term financial requirements. Numerous proposed solutions to bring greater financial stability to the trust funds and to meet the remaining one-third long-term requirement were studied and debated; however, a consensus among the Commissioners could not be reached on which of the options would receive bipartisan support. Seven of the 12 members agreed that the remaining one-third of the long-term financial shortfall should be met by a deferred, gradual increase of the normal retirement age. The other 5 members agreed to an increase in the payroll contribution in 2010 on the employer and the employee, with the employee's share of the increase offset by a refundable income tax credit.

Unable to reach a consensus, the Commission recognized that the long-term financial needs of the trust funds would not be met by its recommendations and that 0.58 percent of taxable payroll is a shortfall that the Congress will be required to address in the future. However, the size of the shortfall may well be larger than 0.58 percent because, subsequent to the Commission rendering its report, the Secretary of HHS disclosed that the 1983 Social Security Trustees' Report will contain revised assumptions that reflect lower birth rates and a lack of real wage growth. As a result of the revised assumptions, the long-range deficit projected for the trust funds will be greater than the 1.8 percent of taxable payroll estimated by the Social Security Reform Commission.

AVAILABILITY OF FUTURE FUNDING SOURCES

As mentioned earlier, the Commission used the three funding sources available to it—increase taxes, decreased benefits, and the infusion of general revenues. Should the Congress decide to address the long-term financial needs of the trust funds in the future, presumably these three financing sources would be available. However, any option which involves changes in benefits generally must allow for an adequate period before implementation, so that those who would be affected will have ample time to prepare and adjust their retirement planning. Also, to the extent that fewer workers will be supporting social security in the future (two workers for each beneficiary by 2030 under intermediate assumptions and 1.6 workers for each beneficiary under pessimistic assumptions), increasing employee taxes as a major revenue source in the longer term may become prohibitive. Finally, with regard to using general revenues, as additional general revenues are infused into social security, additional tax revenues could be required to meet other budgetary needs.

OPTIONS FOR IMPLEMENTING THE COMMISSION'S RECOMMENDATIONS

In view of the magnitude of the financial problems facing the trust funds and the recognition that part of the projected deficits will not be rectified by the Commission's recommendations, GAO offers the following suggestions which we believe could either (1) bring greater savings to the trust funds; (2) treat people more consistently; or (3) avoid administrative difficulties that could be associated with some of the recommendations as currently offered.

COST-OF-LIVING ADJUSTMENTS

The Commission has recommended that, beginning in 1988, if the trust funds' balance as of the beginning of the year is less than 20 percent of the amount needed to pay benefits that year, the automatic cost-of-living adjustment (COLA) should be made on the lower of the Consumer Price Index (CPI) increase or the increase in wages.

With regard to automatic COLAs, it is worthwhile to recall that prior to 1972 COLAs were given through the Executive and Legislative decisionmaking process, taking into consideration economic and other relevant factors. It is also worthwhile to recall that in 1970 the trust funds had more than 12 months of benefits on hand and projections showed continually favorable financial conditions for social security. However, by 1973, the Board of Trustees of the trust funds began to project both short- and long-term financing problems. Today, there is widespread agreement that the major factors that have contributed to the trust funds' financial problems have been the high inflation rate experienced during recent years and the inflexibility of the automatic COLA process to allow Executive and Legislative decision makers to modify such raises. Also, the automatic COLA recommended by the Commission does not provide the flexibility for reducing, suspending, or excluding a cost-of-living payment when funds are not available to make the regularly scheduled monthly payments.

In view of the issues involved with automatic COLAs, the Congress may wish to give consideration to putting itself in the same position it was in before 1972, when the automatic COLA was placed into law.

Another aspect of the Commission's recommendation that the Congress may wish to consider involves the administrative difficulty the recommendation will cause Social Security as currently worded. The recommendation provides that, if the trust fund ratio is 32 percent or more at the beginning of a year, payment will be made during the following year to compensate beneficiaries who received adjustments in prior years on the basis of the lower wage increases. These supplemental payments would be made only to the extent that sufficient funds are available over those needed to maintain a fund balance of 32 percent. Although the administrative provisions to implement this recommendation have not been fully worked out by the Social Security Administration, it is clear that the recommendation will cause additional recordkeeping and administrative problems. For example, the supplemental COLA payment provision would require Social Security to perform a major redesign of its already troubled automated payment system.

Finally, should the automatic COLA modification recommended by the Commission be favorably considered, the Congress may wish to make it available before 1988, especially in view of the trust funds' serious financial needs. Should the economy not perform as anticipated under assumptions used by the Commission, the mechanism to provide COLAs based on the lower of the increase in prices or wages may be needed earlier that the 1988 date recommended.

SHORT-TERM WORKER WINDFALL

The Commission proposed limiting social security benefits for those who also have pensions from noncovered employment. The Commission's recommendation, to become effective after 1983, is designed to more directly correlate benefits payable with the proportion of time spent in employment covered by social security and the taxes paid. In April 1981, GAO reported [1] on this problem and presented its suggestions for computing benefits which would end the advantage for all short-term workers. Assuming any modification would become effective for workers first eligible in calendar year 1984 and later, over a six-year span savings could range from $3.5 billion to in excess of $4.1 billion. The Commission recommendation will result in savings of $200 million through 1989.

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[1] Attachment 1 to this statement provides further details on GAO's study on the short-term worker.

Requiring a different benefit calculation for those with pensions from noncovered employment would place additional administrative requirements on SSA for identifying such individuals and their noncovered pension amounts. It could also result in those with a small social security benefit having that benefit reduced because of a very small noncovered pension.

OBSERVATIONS ON TAXING BENEFITS

The National Commission recommended that, beginning in 1984, 50 percent of social security benefits be considered income taxable for persons with adjusted gross incomes (before including any social security benefits) of $20,000 if single and $25,000 if married. The recommendation made by the Commission presents the following potential problems:

1. "The Notch Problem"—The question of fairness is raised by establishing a specific dollar limit above which people would be taxed, such as $20,000 single and $25,000 married. The notch occurs when people have incomes just at that level or a little higher and are taxed on one-half of their benefits, whereas people who have incomes just below those levels are not taxed.
2. "A Marriage Penalty"—As recommended by the Commission, a single person would be allowed $20,000 in income before being taxed on social security benefits, whereas if that individual is married, the couple can exclude only $25,000 from the combined income. The marriage penalty involves not providing an equal amount for both spouses or a $40,000 exclusion.

SSA ORGANIZATION AND MANAGEMENT

Notwithstanding the short- and long-term financing and policy issues confronting Social Security, there is another important set of issues that involve the organization and management of the social security system. Over the past 10 years, SSA has had eight Commissioners or acting Commissioners and has undergone three reorganizations. During this period, GAO has been reviewing Social Security management and program activities and noted an increasing level of criticism of its ability to pay benefits to the right people, in accurate amounts, and in a timely manner.

The organization and the management of SSA is an important aspect of effectively carrying out the social security program. The National Commission did not look into the various complex issues associated with the organization of Social Security, but a majority of its members recommended that a study group be formed to look into this matter.

In this regard, GAO will continue to place a heavy emphasis on reviews and studies directed at how well SSA is organized and managed to carry out its mission and will work closely with Social Security and the cognizant authorizing and oversight Committees of the Congress to bring about a more efficient and effective Social Security Administration.

In closing, should the Congress decide to consider proposals, in addition to the recommendations made by the National Commission, GAO offers three options, which are briefly described in the attachments to this statement, for bringing about further savings to the trust funds. The options were developed through individual GAO studies and are offered, not as substitutes for the recommendations by the Commission, but as additional actions that the Congress might consider to improve the financial stability of the social security trust funds.

Attachments—3.

ATTACHMENT 1.—REVISING SOCIAL SECURITY'S BENEFIT FORMULA WHICH FAVORS SHORT-TERM WORKERS COULD SAVE BILLIONS

The social security benefit formula is a compromise between the objectives of individual equity and social adequacy; the first a reasonable relationship between taxes paid and benefits received, the second a welfare attempt to assure everyone of a basic income level.

The benefit formula provides individual equity by relating benefits to the earnings on which taxes are paid. This relationship is modified to achieve social adequacy goals by weighting the formula in favor of workers with low average earnings.

These modifications, however, have the unintended result of offering the same favorable return on payroll taxes to those who worked intermittently under covered employment as to those who worked under social security throughout their lives at low wages. And it can be—and often is—the case that the intermittent or short-term worker does not have the same need as the life-long low wage earner.

GAO has offered its suggestions for revising the benefit formula to remove this advantage. Assuming any modification would become effective for workers first eligible in calendar year 1984 and later, over a six-year span the suggestions would save between $3.5 billion and $4.1 billion.

The Department of Health and Human Services had no comments on these revisions when they were offered in GAO report HRD-81-53, issued April 14, 1981.

ATTACHMENT 2.—SOCIAL SECURITY BENEFITS PAID TO ALIENS ABROAD AND ALIENS WHO WORKED ILLEGALLY WHILE IN THE UNITED STATES

Congressional concerns have surfaced repeatedly since the early days of the social security program about the inequity that might be worked upon the American social security taxpayer by aliens who work only long enough to become eligible, then retire to their native countries to collect benefits for themselves and their dependents.

GAO found these concerns valid. We found that more than 60 percent of beneficiaries abroad are aliens and that alien retirees abroad generally have worked less time in covered employment, paid less taxes to social security, and have more dependents than does the average retiree, frequently adding such dependents after retirement. Millions of dollars could be saved by curtailing benefits to aliens, but the amount of savings is dependent on which of several options is selected.

GAO cautions, however, that the alien question presents a number of difficult and complex policy issues. The issues involve (1) the equity of treating aliens differently than Americans, (2) the potential international reaction by countries whose citizens will be adversely affected, and (3) the administrative question of requiring aliens to pay full FICA taxes and then placing a cap or other curtailment on their benefits.

GAO also notes that a gap exists between the provisions of the Social Security Act and the Immigration and Nationality Act (INA) which allows aliens to earn entitlement to social security benefits while violating the INA. Consequently, millions of aliens, both legal and illegal, may have engaged in unauthorized employment and earned entitlement to social security benefits for such employment. Correction of the gap through legislation could, by relatively conservative estimates, save the trust funds perhaps $1 billion each year.

ATTACHMENT 3.—DISCONTINUING SOCIAL SECURITY'S CURRENTLY INSURED BENEFIT PROVISION WOULD SAVE MILLIONS AND ELIMINATE INEQUITIES

GAO recommended that social security's currently insured benefit provision be discontinued because it is irrelevant and inequitable. Discontinuance will not affect survivors now receiving benefits and could, through 1990, save the trust funds about $180 million.

About 99 percent of all insured workers earn retirement and death protection for their survivors by becoming fully insured—a status reached by having one quarter of coverage for each year after 1950 or age 21 and before the year of death or age 62. An alternate path to eligibility, the currently insured provision, requires the worker to have only six quarters of coverage during the 13-quarter period ending with the quarter in which death occurs.

The currently insured provision, enacted in 1939 to provide backstop protection during the program's early years for the families of those workers who might die before they had a chance to work long enough to become fully insured, is no longer needed. Today, 9 out of 10 jobs are covered by social security, and the vast majority of workers are fully covered. Further, over the years the coverage requirements to obtain and retain full protection have been eased so that there is no longer the same need for an alternate path to eligibility.

The Department of Health and Human Services has supported the proposed elimination of the currently insured provision, as offered in GAO report HRD-82-51, issued April 23, 1982.

STATEMENT OF HON. LARRY E. CRAIG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

First, I want to thank the Members of the Subcommittee and Full Committee for their hard work in addressing a difficult situation. In addition, the National Commission on Social Security Reform deserves a "hats off" thanks for their efforts. I also want to express my appreciation for the opportunity to address this issue in written testimony.

No other single issue before the Congress is more sensitive, emotional, or controversial than Social Security. It is not new information that without Congressional action, Social Security will be unable to pay full benefits to 36 million Americans beyond July 1, 1983.

Last week, I completed field briefings and town forums across half of Idaho on behalf of the Subcommittee on Human Services of the Select Committee on Aging. In those four meetings, we attracted over 1,350 people. No doubt, this shows the concern for the issue in the First District of Idaho, and is representative of the nation as well.

When Social Security was established, its original purpose had admirable goals. When earnings dropped or were reduced because of retirement, death or disability, benefits were to be paid to replace part of the earnings lost.

Social Security was established, basically, as a pay-as-you-go system with its basic intention to replace, in part, lost earnings. Today, Social Security is much, much more and, in time, has become vitally important to our society. One out of every six Americans is a beneficiary. 111 million taxpayers contribute into the system. $14 billion are paid or each month, and Social Security accounts for about one-fifth of the national budget.

Over the last two years, Americans have developed a better understanding of the fact that Social Security does have problems, and that those problems must be corrected. The system has a cash flow dilemma. Social Security is spending about $17,000 more per minute than it is taking into the system. One way or another, there is either too much flowing out or not enough flowing in.

The situation mainly stems from politicans making less-than-wise decisions over the last 30 to 40 years. Social Security was originally intended to provide a modest supplement to the income of retirees. Gradually, the program was expanded by increasing the number of people covered, adding disability payments, creating Medicare, allowing benefits in early retirement, and raising monthly check payments.

The bottom line solution is to either increase taxes by billions of dollars or decrease benefits by billions of dollars. The impact on both sides of the equations is monumental and far reaching. Because of the magnitude of those potential legislative actions, which would impact both the beneficiary and the taxpayer, the issue has become a political hot potato.

President Reagan proposed some suggestions of his own in 1981 to try to get the system back into balance. The outcry was so great that he opted for a bi-partisan commision to bring forth a compromise plan which, after thirteen months, was accomplished.

At this point, I want to commend the National Commission on Social Security Reform for three major decisions: (1) The Commission reaffirmed the concept that Social Security has a fundamental role in providing basic income after retirement, disability or death; (2) it recognized a problem exists, which, because of the variety and diversity of political persuasions, is more than half the battle; and (3) the Commission acknowledged the size and scope of the shortfall from $150 to $200 billion in additional revenues and/or reduced expenditures in the short range, and a long range gap between revenues and expenditures of some 1.8 percent of taxable payroll.

Briefly, I would now like to address some of the major recommendations of the Commission with which I concur:

1. State and local government, which have elected coverage for their employees under QOSDI-HI program, should not be permitted to terminate such coverage in the future.

2. The method of computing benefits should be revised for persons who first become eligible for pensions from non-covered employment, and then qualify for Social Security benefits.

3. 50 percent of OASDI benefits should be considered as taxable income for income tax purposes for persons with adjusted gross income—before including any OASDI benefits—of $20,000 if single, or $25,000 if married. There must be a graduated scale included so as not to penalize those making $20,001 versus $19,999 since most people get back, in benefits, $5 for every $2 they contributed. I believe it is fair

to tax this income. However, I see the self-financing structure of the system partially clouded by interjecting "back door" use of general revenues into the trust fund.

4. Cost of living adjustments (COLAs) of OASDI benefits should be delayed; but, I believe other solutions need to be found. I have strongly and actively lobbied for an across-the-board freeze on ALL increases in the 1984 fiscal year budget to allow revenues to catch up with expenditures. Further during the period from 1970 to 1980, after tax income increased by 210 percent for the retirees, wage earners saw gains of only 120 percent.

5. To increase the delayed retirement credit from 3 percent to 8 percent for individuals between the ages of 65 to 70, who delay retirement beyond age 65, is a very good idea. By beginning in 1990, this gives people time to adjust.

6. The portion dealing with CPI and Average Wage Increases is a solid proposal. However, it should be implemented much earlier than 1988.

Let me now express some of my deep objections to the proposals:

1. The 1985 payroll tax increase has been adjusted forward to 1984, and 75 percent of the 1990 payroll tax increase has been moved forward to 1988. Increasing payroll taxes, particularly in the near term, is counterproductive. It creates disincentives for employing additional people which, in turn, adversely affects both Social Security and general revenue collections. Further, FICA is not the only payroll tax scheduled to increase. FUTA (unemployment) tax hikes are scheduled in 1983 and 1985.

2. The 30 percent increase in the tax on the self-employed is too great a burden for those who are already operating at the margin because of difficult economic conditions. Beginning in 1984, this proposal would increase the after-tax OASDI burden on the typical self-employed person by 30 percent, or $439, the largest increase in history. The tax increase on employees would be totally offset by a refundable tax credit. The tax deduction the Commission proposes for the self-employed, equal to ½ the OASDI tax, is of limited value except for the very few self-employed with very high incomes.

3. New federal employees and non-profit organization employees would be covered under Social Security. There must be better assurances that federal employees will be provided with retirement benefits comparable to those under the Civil Service Retirement system, and that federal retirees and those currently working will have their retirement benefits protected.

4. My biggest disappointment, however, is not addressed in the recommendations. The proposals still leave in doubt the future of the Social Security system. This Commission had a golden opportunity to bring the system into line and to secure the financial future of the system. One-third of the long term gap remains. Of the $169 billion in short term deficit reductions in the plan, approximately one-third is represented by direct and indirect infusion of general revenues which, combined with payroll tax increases, account for some 75 percent of the short term shortfall reductions. Frankly, the Commission's proposal is a "band-aid" over a gaping wound.

We have superficially addressed the fact that benefit expenditures are determined by inflation rates while revenues are determined by wage growth and employment levels. Long range demographic shifts, which affect the ratio of working people to beneficiaries has not been resolved. When the system was started, there were fifteen workers for each beneficiary. Today, that ratio is three workers to each beneficiary, and by 2030, there will be two workers for each beneficiary. In essence, with employee-employer contributions, each worker will be providing for one-half of the beneficiary's retirement income. This is a frightening statistic.

Continuing low birth rates and increasing life expectancy mean that while the total population grows by about 40 percent over the next 50 years, the population aged 65 and older will increase by about 150 percent. Growth in the very oldest portion of the population will be greater still—the estimated number of people 85 and older will triple. Thus, not only will there be more retirees collecting benefits in the next century they will be collecting them for longer periods than ever before.

In addition, we must address the demographic changes by raising the age for collecting full benefits. Nevertheless, any attempt to raise the eligibility would need to be done gradually and, in small steps, to allow workers who are not in their late or mid-career time to adjust their retirement plans.

All options need to be considered. We need to implement new policies to allow the trust funds to earn higher interest rates, to implement new administrative procedures to avoid paying benefits to people who have died, and to stop payments to prisoners, non-citizens and illegal aliens. Granted, this will not solve the problem, but the impact is still there.

We must keep benefits and taxes at a level the economy and our citizens can afford. We cannot continue to make promises which the system will not be able to support down the road.

I must agree with the American Society for Personnel Administration when they stated that adequate retirement income must be viewed as a unified whole. Social Security, public retirement plans, private retirement plans, and the financial resources of individuals must each assist in meeting the needs of our retirees.

I also maintain that Congress and staff should be covered by the system. If we are going to sit as the Board of Directors of the Social Security Administration, we should also be bound by the laws, taxes and benefits of the system.

There has been panel after panel, discussion after discussion. Every single option has been documented. The only real question is which political leader is willing to bite the bullet? I am willing. For the sake of millions of beneficiaries and taxpayers paying into the system, we in Congress must concentrate our efforts on true reform. I do not feel that further postponement of a permanent solution to the problems inherent in the present Social Security system is in the best interests of our citizens.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 17, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means.

DEAR MR. CHAIRMAN: I commend your efforts and those of the Committee to hold this forum on the National Commission on Social Security Reform's findings in an expedient manner. The grave difficulties surrounding the solvency of the Social Security System are foremost in the minds of Congress and the nation, and I greatly appreciate the opportunity to present my views on the recommended proposals.

The 15-member Commission undertook a formidable task: to develop a plan that would place Social Security on sound financial footing and restore the confidence of the American public. The Commission's proposals are the product of a constructive compromise—a compromise that sought to avoid a protracted political debate and to spare any one segment of society from shouldering undue burden.

It is for this reason that I am addressing the Committee. I believe one recommendation would be unnecessarily unfair to more than 12,000 workers and beneficiaries in my district—federal and postal employees. I am referring to the Commission's proposal to extend mandatory Social Security coverage to newly hired federal and postal workers as of January 1, 1984.

It is my deep concern that those currently paying into the Civil Service Retirement System (CSRS) may have to accept a proposal that would significantly alter their retirement system without the benefit of a specific transition plan. I believe the absence of this crucial element pours salt on the wounds of federal workers who are proud of the system they've built for themselves.

Federal and postal employees have paid into the Civil Service Retirement fund since its inception in 1920, long before Social Security came into being. For many, CSRS constituted a resolute contract between employees and government. A change in that plan from a pay-as-you-go system to a closed fund is seen as a breach of that long-standing contract.

Employee and employer contributions have created a substantial reserve of $98 billion. With no new income, however, these reserves will soon run dry, and CSRS will rely on other sources of revenue.

Federal employees now paying into CSRS have no assurance that adequate study has been given to the future of their retirement benefits, or the transition problems that will inevitably arise. To ensure the solvency of CSRS, the National Commission recommended a supplemental retirement plan be developed for new hires. Yet, for today's workers, there is:

No assurance of comparable benefits;

No certainty that earnings and contributions will be related to benefits;

No assurance that the Civil Service Retirement fund will not be used to bail out Social Security;

No assurance that money contributed to the system will be properly protected, and,

No assurance that employees will be treated fairly.

Many other important and difficult questions must be answered with a specific proposal:

Who would adjudicate claims under any type of integration of the two systems—the Social Security Administration, Office of Personnel Management, successor of the Civil Service Commission, or some newly created body?

What would the appeals procedure be?

Could a federal employee still retire at age 55 with 30 years service, age 60 with 20 years service—or age 62 with 5 years of service?

Could he or she receive full annuity toward which he or she contributed up to 7 percent of total earnings, without the covered earnings cutoff that exists under Social Security?

Could a federal retiree still make unlimited earnings without having his or her earned annuity reduced?

We cannot leave these questions to be answered in the future. We in the 98th Congress have an immediate interest in developing an equitable and comprehensive plan for a clean transition. I am concerned that federal and postal employees not become the victims of reforms that do no respond to these questions.

I urge the Committee to work closely with the Honorable Bill Ford, Chairman of the Post Office and Civil Service Committee, to assure federal employees their benefits will be protected with no reductions in payments and no unreasonable financial burdens for those presently paying into the system. Not to do so would be a detriment to the federal work force and, ultimately, the American public.

Sincerely,

EDWARD F. FEIGHAN.

STATEMENT OF HON. JOHN S. MCCAIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

As a new Member of Congress, I welcome having the opportunity to present to this Subcommittee not only my concerns but also those of the citizens of Arizona's First Congressional District regarding the very serious financial crisis facing the Social Security System.

Last month I held twenty forums on Social Security throughout my District in which over 6,000 senior citizens attended. I returned to Washington with a heightened sense of awareness and understanding that Social Security remains sacred in American politics. However, I also learned that it must finally be removed from political platitudes such as the all to familiar campaign promises of "preserving Social Security" or "resisting any cuts in benefits to protect the elderly poor." The estimated 6,000 people who attended these meetings did so because they have heard these promises one time too many. The elderly feel threatened and betrayed, and they are angry. They are angry because now, after years of Congressional and Executive band-aid approaches to solving the impending Social Security crisis, they realize, as Washington and the rest of the country now realize that Social Security's financial troubles are neither minor nor temporary—they are immediate.

America's awareness of this was realized last month when the National Commission on Social Security Reform released recommendations for the present and long-term financing of the Social Security System.

These hearings will serve to strengthen and more clearly define exactly what the final package will include. During your deliberations I strongly urge that two other items be taken into consideration in conjunction with the overall revamping of the current system.

The first of these being the inclusion of all current and future Members of Congress under the Social Security System. I have joined with 33 of my colleagues in a letter to Chairman Rostenkowski stating ". . . by subjecting ourselves to FICA taxation and bringing ourselves under the benefit structure, Members of this body will have a personal stake in the future of Social Security which is now lacking. Others who rely on the System and who must pay into it should have that reassurance."

Just as the Commission's recommendations call for coverage of all newly hired Federal Employees, this Subcommittee must consider the inclusion of Members of Congress—even if only for newly elected Members who have not yet acquired vested benefits. The American people deserve more than lip service from their elected representatives. Let's put an end to this attitude of "do as I say, not as I do."

The second situation which has steadily worsened is that we are now paying about $1 billion each year in Social Security benefits to people who live outside of the United States. These people have all previously worked in the U.S. and have paid into the Social Security System; however, some have paid only very small amounts. We simply cannot afford this type of additional drain on the already overburdened Social Security fund. I think the law should be changed to remove from eligibility those non-citizens who live and work in the United States temporarily and then return to their homeland and receive Social Security benefits. These people should receive what they have paid into the system, but no more.

This change, according to the GAO would save upwards of $700 million a year. This savings seems almost absurd when looking at the $169 billion needed over the next seven years in tax revenues or benefit reductions to cover most of the estimated $150 billion shortfall over that same period.

In purely financial terms, these critics are probably correct. The same criticism could also be aimed at the small amount of revenue that would actually be generated by bringing Members of Congress into the System. However, if we think in these terms, I think we've missed the point. It is obvious that changes will be enacted. Those paying into the system will be required to pay more. Those drawing from the system will be required to pay taxes on their benefits, and those not currently under the system will be required to join. These are the changes that will generate the billions of dollars needed to insure the future stability of the System. The changes that I have discussed, although not crucial to the overall refinancing package, would prove equally as valuable, although not in a dollar amount. They would instead send a message to the American people that we do care, we understand and we should all bear the burden of getting Social Security back on a sound financial footing.

I applaud the work of this Subcommittee as well as the full Committee in your efforts to arrive at a timely and comprehensive solution to the financial crisis facing Social Security—a crisis that has been allowed to ferment for far too long. I am convinced that this Congress will coalesce in support of legislation that, although not perfect, will represent real compromise and cooperation transcending partisan political interests.

Thank you.

STATEMENT OF HON. BRUCE A. MORRISON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. Chairman—I would like to call to the Subcommittee's attention several problems that would be caused if the Social Security Commission's proposal to require tax-exempt organizations and their employees to participate in the Social Security System were adopted.

At present, organizations that are exempt from tax under Section 501(c)(3) of the Internal Revenue Code are also exempt from payment of FICA taxes. These organizations may waive the exemption so as to fully participate in Social Security and many have done so. However, many tax-exempt organizations have chosen to retain their exemption from FICA tax while others that once participated in Social Security have now withdrawn.

My comments concern those tax-exempt organizations that are not currently participating in Social Security.

For the purpose of illustrating the problems non-participating tax-exempt organizations will face if the Commission's recommendations are adopted, it is necessary to break the organizations into two groups. The first group is comprised of those organizations which currently maintain pension plans for their employees. Organizations in the second group do not provide a pension benefit.

An example of the first group is New Haven Legal Assistance Association, Inc., (NHLAA) of New Haven, Connecticut, which is located in my district. In 1979, NHLAA instituted an ERISA-qualified pension plan. At present, NHLAA is obligated to contribute more than $60,000 each year to the pension plan on behalf of its employees. This obligation is set out in the collective bargaining agreement between NHLAA and its employees. The obligations of the agreement will remain in force through July 31, 1984, regardless of whether or not the organization is required to participate in Social Security.

NHLAA is further burdened by a provision of its pension plan agreement which includes a penalty loss of all accumulated interest for termination prior to October 1, 1984. I am certain that many other organizations have plans with similar forfeiture provisions.

With little hope of increased funding, it is clear that NHLAA will suffer layoffs or attrition and that an already hard-pressed community will suffer a reduction of service if NHLAA is forced to meet contract-mandated pension obligations as well as pay FICA taxes. If it is released from the obligation of its collective bargaining agreement and withdraws from the pension plan on December 31, 1983, its employees will lose thousands of dollars in accumulated interest income because of the plan's early withdrawal provisions.

Thus NHLAA and other like organizations will be faced with untenable choices.

Equally compelling is the problem faced by tax-exempt organizations who neither participate in Social Security, nor have a qualified pension plan. Many of these organizations will not have the ability to pay FICA taxes. For all of them, payment of the tax necessarily will adversely affect their ability to provide services at current levels.

Because of these difficult problems, I recommend that the Subcommittee on Social Security and the Ways and Means Committee consider treating non-profit organizations the same way as state and local governments would be treated, if the Commission recommendations were adopted; that is, allow non-participating tax-exempt organizations to retain their status, but prevent current participants from withdrawing in the future.

As an alternative, I would recommend that tax-exempt organizations be treated the same way that federal employees would be treated under the Commission plan: Payment of Social Security taxes by charitable organizations for all persons who begin employment after January 1, 1984.

Support for charitable organizations is an important goal that has been recognized and promoted by Congress in many ways. We should not blind ourselves to the adverse impact that would result if we require currently non-participating tax-exempt organizations to pay FICA taxes. A change in FICA policy would be a budget cut in another guise. However much I appreciate the difficulties faced by the Social Security system, I also recognized that the Commission proposal as it pertains to tax-exempt organizations will work a substantial hardship on those organizations, their employees, and the communities that they serve.

STATEMENT OF HON. BILL NICHOLS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, thank you for the opportunity to testify on the proposed changes in our Social Security Program. At the outset, let me congratulate the members of the President's Commission on Social Security Reform. The Commission was charged with the nearly impossible task of creating a package of recommendations to stabilize the ailing Social Security System. The Commission's recommendations now serve as the basic outline for the Congress to strengthen this financially weakened system. Even though the Congress may make changes in the Commission's original blueprint, they have provided us a platform so that we can return our Social Security System to financial stability.

No proposal of this magnitude or importance can, in its entirety, be unanimously endorsed. As a package, however, the importance for compromise becomes very clear.

Recipients of social security will experience no reduction in their present social security benefits.

The responsibility for financially stabilizing the system will be equally shared by those who pay into the program. The sacrifices will be shared by all.

Finally, the Commission has impressed on skeptical Americans that there really exists a financial problem in the system. This admission of the financial crisis is fundamentally essential if Congress is to act in a quick and sincere manner to correct the problems facing the Social Security program. For the good of the Social Security System, and for the good of the nation, Congress cannot permit this program to default on those who receive benefits or are vested into the plan.

As I have indicated, the proposal before the Ways and Means Committee today is not perfect and I would be remiss if I did not at least highlight my own concerns over the plan before us.

The immediate problem facing the Social Security System is the negative financing of the retirement trust fund. Simply, we are committed to paying out more in benefits than we receive in social security taxes. Congress had approved temporary measures to insure that the system remains solvent, but even these stop-gap measures could not avoid the inevitable—present funding sources of the social security retirement benefits will run out this year without reductions in benefit payments or increases in taxes.

The Commission's proposal has remedied this problem, but only for the short term. A larger and potentially more dangerous long term problem still looms over the horizon. I believe it is unfortunate that we cannot resolve both the short-term and long-term funding problems which we know exist.

Another concern is the substantial increase in taxes to fund the system. Less than five short years ago, on the assurance of this Committee, I told my constituents that the Revenue Act of 1978 would resolve the funding problems then projected for the Social Security System. None of us like to raise taxes, but the tax increases approved in 1978 were made politically palatable because the additional revenues would guarantee the solvency of the Social Security trust fund for decades to come.

In 1980, however, Congress realized the financial problems of the Social Security system far exceeded our expectations. We were then forced to consider new measures just to be sure that benefit checks could be honored in 1981 and 1982.

Once again we review those 1978 taxes and plan to accelerate the dates that they will become effective. I want to insure that this time the American people know that even if we pass this proposal, the long-term liability of social security will not be fully covered.

Congress must inject confidence into the Social Security system. It is the responsibility of the Congress—the trustees of the Social Security Trust Fund—to instill a sense of trust that benefit checks will be there at the appointed time. We must honestly portray our present actions.

Yet, while we speak so highly of this great system, one glaring oversight remains evident. Members of Congress do not pay social security taxes. How then, can we expect that our constituents to have confidence in a system that their own appointed trustees do not financially support? The answer is, we cannot.

We must look to ourselves to provide that confidence in the system. I want to impress upon the Committee my belief that regardless of what final changes we write into the Social Security law, provisions should be made to include the legislative branch of government under Social Security coverage.

This new requirement should not be limited to just those new Members of Congress entering Congress after January, 1984, but for all Members of the House and Senate. Unless we financially support the system, just as other American workers pay their fair share of FICA taxes, our speeches and statements endorsing the Social Security System will be looked on with suspicion.

Mr. Chairman, again let me congratulate the President's Commission for a job well done. They have now provided Congress a starting point so that we may assure the short-term stability of this important system. We should not let our individual concerns over minor aspects of the final plan destroy the compromises necessary to accomplish the financial safety of this national program.

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

I would like to first commend the Chairman and Members of the Subcommittee, as well as the Members of the National Commission on Social Security Reform, for their efforts to deal constructively with the difficult and politically troublesome issue of Social Security financing. I welcome the Commission's success in reaching a consensus and in presenting us with a set of recommendations which will serve as a valuable starting point for our debate. However, as we all know, the Commission's is not the last word on this issue. We here in the Congress still have the responsibility to act, and I think that the length and breadth of these hearings is an acknowledgment of the fact that the Congressional debate on Social Security must be no less thorough, no less far-reaching, for the discussions and agreements which have preceded it.

When I first introduced the Social Security Reform Act last December, it was already clear that action to make up the system's funding shortfall had become a matter of urgent necessity. The issuance of the Commission's compromise plan is certainly a welcome development, but unfortunately these few weeks have not seen any improvement in Social Security's financial condition. In fact, it now appears doubtful whether the combined resources of all three trust funds can carry the system through 1983. We must act now.

What exactly are the problems that need to be resolved? We must ensure that Social Security's immediate month-to-month obligations are met. But more than that, Social Security must be stabilized, its fiscal integrity guaranteed, and current and future Social Security recipients protected against the recurrence of such funding crises in the future. And we must accomplish these goals without asking any one sector to bear too heavy a share of the burden of change.

I continue to believe that the National Commission has been too limited in its approach to these problems. Because it is restricted to short-term measures, the Commission plan has negative effects on every sector. The elderly—including the almost seven million Americans who get 90 percent or more of their income from Social Security—must wait until next year for their 1983 cost of living adjustment. An additional tax burden is imposed on those seniors who are able to draw on other income sources, such as savings and private pensions. American workers, one-quarter of whom already pay more in Social Security taxes than in income taxes, suffer from the acceleration of payroll tax increases. These increases also have a harsh impact on business, particularly on the self-employed.

The Commission proposals will make up Social Security's immediate shortfall, but the long-term structural problems of the system will remain. I believe that the Social Security Reform Act I will be reintroducing soon will shore up the system for the near future while at the same time reforming it in a comprehensive and constructive way, making it stable and secure not only for today's retirees but also for today's workers and for their children and grandchildren. I would like to briefly summarize the provisions of my bill for you:

First, structural reform. The bill separates the elements of the Social Security system into two categories. The Old-Age and Survivors Insurance trust fund, which pays retirement, survivors, and dependents benefits, would continue to be funded by the payroll tax and would have a separate account in the federal budget. The disability insurance and Medicare programs would be gradually removed from payroll tax financing and put onto a permanent consolidated trust fund supported by the general fund. From 1991 on, the payroll tax would be used to fund only the OASI programs.

Second, stability in funding. The immediate obligations of the system will be met by transferring the surplus in the disability and Medicare funds to OASI and allocating to OASI whatever additional proportion of payroll tax revenues is needed. The OASI tax rate would be set at 5.2 percent in 1984 and from 1985 on would be stabilized at 5.1 percent. This would be sufficient to build up the trust fund's reserves and guarantee continued payment of retirement and related benefits.

Third, no adverse impact on the federal budget. To accomplish this restructuring, and to avoid adding to the already-staggering federal budget deficit, a specified amount of the payroll tax would be paid into the disability and Medicare trust fund over a transition period covering the years through 1990. In addition, the projected 10 percent tax cut scheduled for July 1 would be reduced to 5 percent, with the remaining 5 percent also set aside for the payment of disability and Medicare benefits.

Fourth, no benefit reductions and no additional payroll tax increases. This proposal would not cut or delay benefits to current retirees. It would not accelerate payroll tax increases; in fact, currently-scheduled increases would be scaled back.

Fifth, additional stabilizing reforms. Social Security coverage would be extended to new federal employees and employees of non-profit organizations, as the Commission has recommended. In addition, cost of living adjustments would be indexed to the wage base rather than the Consumer Price Index, helping to stabilize the system by making outgoing benefits subject to the same economic conditions as incoming revenues.

Finally, the question of equity. I have long felt that Medicare and disability are better suited for general revenue financing than for funding through the payroll tax. These programs are difficult to reconcile with the "earned wage benefit" concept on which the retirement program was based, because they do not pay benefits to everyone who pays Social Security taxes and because their benefits are not contribution-related. In addition, the payroll tax is a regressive tax because it is a flat percentage taking a proportionately greater share out of the low- or middle-income worker's paycheck. The income tax system, on the other hand, is designed to be progressive: the higher one's income, the greater the tax rate. I simply do not believe it is equitable to ask low- and middle-income workers to bear a greater share of these programs' costs through a regressive tax when they may never qualify for benefits—and if they do, those benefits will be unrelated to their relative contributions to the system. Reliance on general revenues will spread the burden of Medicare and disability costs more fairly, while ensuring the solvency of the retirement fund.

I know that some will object to this use of general revenues for programs which were meant to be self-supporting. However, the Commission also makes use of general revenues: by taxing benefits and by providing a refundable tax credit for the 1984 payroll tax increase. If general revenues are to be used anyway, I believe they must be directed to those programs which are most appropriate for their use, and they must be accompanied by structural reforms which will ensure that the retirement fund will not have to make use of such revenues in the future.

Finally, I would like to point out that my proposal would generate significantly more revenue for the Social Security system than would the Commission plan. According to the Congressional Budget Office, the Commission plan would result in

OASDI outlay reductions and income increases of $87.9 billion over the five-year period covering 1984 through 1989. But over that same period, my bill would add a total of $159 billion to the Social Security system. I believe this extra revenue is needed to avoid an outcome like that of the 1977 Social Security debate, when we were told that the system had been stabilized for the next 75 years and yet find ourselves at a crisis point only six years later.

Mr. Chairman, you and the other members of the Subcommittee and the full Ways and Means Committee have a unique opportunity to decide not only how to keep Social Security benefits coming in the next few months, but also how the system should be structured to ensure that it will endure well into the future. The structural reforms which I have outlined for you are necessary for the system's long-term stability and for the peace of mind of both current beneficiaries and the retirees of tomorrow. I hope you will take full advantage of this opportunity, and will institute these comprehensive and much-needed reforms.

STATEMENT OF HON. GERRY SIKORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman and members of the Committee, thank you for this opportunity to present my statement on the Social Security and Civil Service Retirement Systems. I know we face some difficult decisions in the weeks to come. However, I am sure the work of the Ways and Means Committee will be particularly useful in advancing the public debate and developing a legislative package to address the problems faced by the Social Security Trust Fund.

The significance of our actions cannot be underestimated. The scope of the Social Security System is well known:

116 million people currently support the system.

36 million people currently receive benefits.

Over $1,000,000,000 will be paid out in benefits over the next four years.

Without question, the programs of the Social Security System impact upon virtually every segment of our society.

The dimensions of the Social Security System have significantly expanded over time. In the first days of the System, only 20 percent of all workers received benefits. Today, over 90 percent of all workers receive some type of coverage. Yet, fewer workers are paying into the system. With a dropping birthrate and increased longevity, only 3.2 workers now provide for each beneficiary. In 1950, 16 workers provided for each beneficiary.

All of us know too well the seriousness of the problem. The Old Age and Survivors Insurance Fund is paying out more in benefits than it has been receiving in tax revenues. The Retirement Fund has already run out of money and is borrowing from other Social Security Funds. The Retirement Fund is now losing money at the rate of approximately $45,000 per minute—$2.7 million per hour—$64.8 million per day.

Today, fully 50 percent of the beneficiaries of the Social Security System are elderly, single individuals who must rely on their government checks as their principal source of income. We know that the private sector has continued its development of pension plans and we should continue to urge greater utilization of these plans. However, we cannot allow the elderly, the disabled and millions of Americans to live with the fear that their lifeline of support will be shut off due to lack of action. Moreover, those who support the system question its longevity.

A majority of the American public now wonder if they will receive the social security checks they have planned for, or will the system simply run out of money. It is incumbent upon us in Congress to address this concern and to restore public confidence in the Social Security System.

Two guideposts exist that must form the basis of our decisions:

1. We must assure the actuarial soundness of the Social Security System without overburdening workers or recipients.

2. We must ensure our Federal workers, both current and future, that their benefits will remain sound and that their existing pension fund will be secure.

Without question, the single most important consideration overriding this Committee's deliberations is the need to develop a legislative package which restores the actuarial soundness of the Social Security Trust Fund. Benefit payments may not be made in July unless corrective action is taken now. Congress must act immediately to shore up the resources of the trust fund.

I am confident that the Congress will be able to address the problems surrounding short-term financing of the Social Security System. However, we must not forget our responsibility to also examine the long-term financing of the system. In neither case can we afford to approach a crisis situation that will hurt in the long run.

An important part of the task ahead, Mr. Chairman, is to address the legitimate concerns of current and former employees of the Federal government, the beneficiaries of the Civil Service Retirement System. Those covered under this system fear that their future benefits will be adversely affected by the actions proposed to reform the Social Security System.

It is important to remember that essential differences have existed between the Federal Civil Service Retirement system and the Social Security System. The Federal System was never designed to be merely a baseline source of income. Rather, it is a pension plan that supplies full retirement income for Federal workers, many of whom have devoted their working lives to one system. If new Federal workers are brought into the Social Security System, we must not undercut or jeopardize the benefits of current Federal employees.

It is clear to me that additional legislation will be needed to serve two purposes. First, it must guarantee current Federal employees that they will not suffer a loss of their benefits. Second, it should provide new Federal employees with the opportunity to participate in both the Social Security System and in a supplementary Federal pension program.

Mr. Chairman, our task is clear. Working together, we must develop a program that will meet the needs and concerns of all Americans. We have a responsibility to our fellow citizens and I, for one, am confident that we will meet the challenge.

Mr. Chairman, I appreciate the opportunity you have afforded me to express my views to your Committee.

Thank you.

STATEMENT OF HON. BRUCE F. VENTO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman, I want to take this opportunity to thank you and the Members of the Committee for allowing me to participate in your hearings concerning the recent report of the National Commission on Social Security Reform.

It is important for us to ask ourselves why we are here today and why your Committee is faced with this most urgent task of approving legislation designed to cover a projected deficit in the Social Security System of between $150 and $200 billion over the next 7 years. There can be no doubt that the recent financial problems facing the Social Security System have been severely exacerbated by the fact that over 12 million Americans are unemployed today. These 12 million unemployed workers and the millions of underemployed or discouraged workers are not paying Social Security payroll taxes, thus causing a very sharp decline in the payroll tax revenues coming into the Social Security trust funds. Every percentage point of unemployment in America today represents a loss of millions of dollars to the Social Security System. Faced with this economic crisis, Congress must either reduce or delay some Social Security benefits or raise additional revenue to replace that which has been lost. The consensus agreement reached by the National Commission on Social Security Reform combines both of these alternatives by raising additional revenue and delaying the payment of some benefits.

I would not accept any of the reductions or delays in benefits recommended by the commission nor would I accept the tax increases if it were not for the economic catastrophe which we face today. Our current economic crisis is the result of the failure of Reaganomics and the politics of selfishness in this Administration has tended to the interests of the wealthy while ignoring the pressing economic needs of the vast majority of our people. Not only is it bad morality, it is as the record clearly demonstrates, bad economics.

In 1981, the President and many of his Republican colleagues in Congress proposed drastic reductions in Social Security benefits which affected millions of Americans. But the Democratic majority in the House and many conscientious Members in the Senate said no to many of these proposed reductions in benefits. The President, working closely with his Republican colleagues in the Senate and House, were unfortunately successful in enacting into law dramatic reductions and eliminations in Social Security minimum benefits, death benefits, student benefits and spouse and survivors benefits. Despite claims to the contrary the President also cut for many recipients the Social Security cost-of-living adjustment for last year. These and a myriad of negative changes in Social Security benefits as well as severe cuts in other social welfare programs have established a sad track record for this Administration. Democrats waged a hard-fought campaign, as this Committee is well aware, to partially restore the minimum benefit cuts pushed through by the Administration.

Later, after these cuts were in place, President Reagan protested that he had been misunderstood and that he had not really proposed any reductions in benefits for Social Security recipients. The record speaks for itself. Indeed, millions of Americans understood the President all too well

Under attack for his policies, the President found it necessary to appoint a Presidential Commission to study and make recommendations about how to solve Social Security's serious financial problems. The President's "bipartisan" Commission was, in fact, dominated by Republicans, many of whom were sympathetic to the Administration's past proposals for curtailing benefits. Fortunately, Speaker O'Neill's appointees to the Commission did a superb job of protecting the interests of those in the greatest need. Advocates such as Bob Ball, Claude Pepper, Lane Kirkland and others were not swayed by attempts to undercut the Social Security System.

Under the best economic scenario, no cuts or delays in Social Security benefits would have been necessary. But the Commission, and indeed Congress, must face the reality of over 10 percent unemployment. To assure that there will be no delay or interruption in the issuance of Social Security checks later this year, we are told that all aspects of the Commission's report must be implemented.

The proposed six-month delay in cost-of-living adjustments (COLAs) for 36 million beneficiaries is a bitter pill to swallow but there is really no alternative in light of the urgent financial problems facing Social Security. It is important to keep in mind also that ultimately these cost-of-living adjustments will be paid.

The Commission also has recommended increasing the Social Security tax on self-employed persons to the full employer-employee rate. Historically, self-employed persons have received the same Social Security benefits as all other recipients working for employers but have only been paying 75 percent of what the full employer-employee payroll tax would be. Fortunately, it is also recommended by the Commission that one-half of the total payment be deductible from taxable income while under current law this deductibility is not permitted. We must recognize that while the economy in general is suffering under Reaganomics, small businesses in particular are suffering severely. Congress should consider Social Security refundable tax credits and other means which will assure that small businesses survive these tough times and are not overwhelmed by this change.

The accelerations in the increases in Social Security payroll taxes are a small step but a significant one toward maintaining Social Security on a "pay as you go" basis. This is an important point which should be reflected in all of our other budget procedures as well, especially with regard to tax expenditures in which this Committee has a special responsibility.

Another recommendation by the Commission is to subject to federal taxation one-half of the Social Security benefits for a person making $20,000 or a couple earning $25,000 or more from sources excluding Social Security. It is estimated that about 3 million persons will pay some amount of tax under this proposal. Proceeds from this tax would bring in approximately $30 billion in new revenue indirectly to the Social Security trust funds between 1983 and 1989. It is important to note that there has long been a stringent retirement test (an earned income test). It seems appropriate that persons receiving Social Security benefits who choose to continue working be subject to taxation on income from sources excluding Social Security. It is only logical to recognize the distinctions in taxability between unearned and earned income, especially for the levels of income which would be subject to any taxation under the Commission's proposal. Persons who receive Social Security retirement benefits who continue to draw earned income have enabled their employers to effectively escape the employer's portion of the Social Security payroll tax, as well.

It is my understanding that the Commission recommendation and the respective House and Senate Committees will deal with the notch problem regarding the phasing in of income tax on the one-half Social Security income over the threshold point.

The Commission's technical changes regarding benefits and eligibility for certain types of widows and widowers, divorced persons, and survivors are positive changes which correct some long-standing inequities in the Social Security system.

One of the Commission's most important recommendations is that all new federal employees after January 1, 1984 be included in the Social Security system and that a supplemental retirement system within the existing Civil Service Retirement system be created for the benefit of these employees. Federal employees and retirees are genuinely concerned about the future of the Civil Service Retirement system. Unfortunately, the Reagan Administration has done nothing to reassure federal workers and retirees that it is concerned with their interest.

In its fiscal 1984 budget proposals, the Reagan Administration again calls on federal workers to bear a disproportionate share of the burden for its failed economic policies by significantly increasing their payroll tax contributions to the Civil Service Retirement system from the current 7 percent to 9 percent in 1984 and 11 percent in 1985 while mandating that scheduled pay raises for workers and cost-of-living adjustments for federal retirees be cancelled this year. In addition, the Administration is proposing changes which would effectively eliminate early retirement for federal employees. If Congress is to include new federal employees in Social Security beginning next year as the Commission recommends, we must also make certain that a supplemental retirement plan is in place so that new federal employees will not suffer reductions in their retirement benefits. It is not necessary for us to save Social Security by scrapping the Civil Service Retirement system.

The Commission's proposal to impose a moratorium upon the withdrawal of local and state governments and non-profit organizations which currently participate in the Social Security system is a wise proposal which should be implemented without delay. In many instances, such as the recent withdrawal of Los Angeles County from the Social Security system, employees were left with little or no protection after their withdrawal from Social Security. Unfortunately, many employees in the public and private sector do not have retirement systems which are as strong and sound as the Civil Service Retirement system. The implemetation of a compromise package which will strengthen the financial integrity of Social Security will be made immensely more difficult if voluntary withdrawals from the system are permitted to continue indefinitely.

I am somewhat concerned by the Commission's proposal to reward persons taking later retirement by phasing in a larger delayed retirement bonus, equal to 8 percent instead of the current 3 percent for each year a person delays their retirement past age 65. This type of new benefit may create special financial problems for Social Security at a later date. I would be skeptical of any such proposal to add, in effect, a new benefit without also establishing a new source of revenue to finance it.

As with any consensus compromise agreement, there are components of this package which we can endorse and others which we would oppose. If we are determined, however, that there will be no interruption or delay in Social Security benefits we will have to cooperate and work together. There will always be the "nay sayers" who will say that the Commission didn't go far enough because it didn't cut benefits more or because it didn't raise the retirement age now. We must keep in mind, however, that this consensus package does not pretend to address the long-term financing issues which confront the Social Security system. For example, while the largest cost increases in the Social Security system have occurred in the Medicare program, the Commission report does not address Medicare at all. This task has been left to another study commission which will release a report to Congress at a future date. What we must keep in mind today, however, is that this compromise, though not perfect, offers us a means of maintaining Social Security over the short term.

The Commission has made many general recommendations. Importantly, however, the Commission has not provided the legislative language which will implement its objectives. It is now up to this Committee and Congress to examine these recommendations and to write a bill which will stengthen the financial integrity of Social Security for the millions of Americans who depend on it. This will be a difficult task, Mr. Chairman, but it is not an impossible one.

Thank you for your consideration.

STATEMENT OF HON. HAROLD L. VOLKMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. Chairman: I appreciate this opportunity to submit my statement to the Subcommittee addressing the issues surrounding social security as recommended by the National Commission on Social Security Reform. I commend the Subcommittee for taking time to hear from all of the interested parties and appreciate the difficult decisions you will be making in the next few weeks. It is of the utmost importance that the hard decisions be made, to insure the strength of social security for our elderly and the young who will be looking forward to receiving benefits from a system they have contributed to.

I view the recommendations of the National Commission on Social Security Reform as a good start in addressing the problem, but as I am sure you have heard from others, I cannot support all of their conclusions. My primary concerns include the six month delay in the cost of living adjustment, the increase in the tax on the self-employed, and inclusion of all new federal employees under social security after January 1, 1984.

While inflation is down from previous years, it still persists. Any delay in the COLA will result in a severe impact on many recipients. Obviously, those most affected by this proposed delay are those presently at or below the poverty line. According to the American Association of Retired Persons, this may amount to 29% of those receiving Social Security. Also, the cost of the goods and services that are most important to the elderly have risen faster than the rate of inflation. In my district, the cost of natural gas increased by as much as 60 percent in the past year. This only points up the fact that a little belt tightening on the part of the recipients during this delay may not make up for the lost benefits. While changes have been made in the SSI to compensate for some of the poorest of the elderly, I'm afraid that the net result will be harmful to many. Knowing of many of the situations faced by the elderly in my district makes it difficult for me to support this recommendation.

I am also concerned about the effects on self-employed professionals and the small businessmen of increasing the tax on the self-employed. I recognize there is a refundable credit from income tax for one-half of the total amount, as proposed by the commission, but I understand this would still result in a net higher payment by these individuals. Also, this tax would fall most heavily on those who are in the lower-income tax brackets as the deduction is worth more to those in the higher brackets. Many self employed small businessmen are suffering from the effects of the recession and this increase would impact on their ability to continue. I am concerned that this would have an adverse effect on small business and the self-employed as a whole. Certainly, in the face of the present economic situation, we should not burden those who are trying to remain productive.

My major concern with placing new federal employees under social security is the shortfall that would result to those present day workers as the civil service retirement system was phased out. I understand that toward the end, when there were no longer any federal employees paying into the system, yet many still receiving benefits, the resulting shortfall could be up to $185 billion dollars. Simply, to support any final measure, the issue of this shortfall must be addressed in the legislation. I do not favor putting this problem off for another Congress to deal with, ultimately facing a similar situation as we now face with social security. I think our federal employees need to be assured of their retirement status as we are attempting to ensure social security recipients of their benefits by addressing the present problem.

I don't envy this Committee in the hard decisions you will be making in the next few weeks and hope the recommendations finally agreed to secure the social security system now and in the years to come.

AMERICAN BAPTIST CHURCHES IN THE U.S.A.,
Valley Forge, Pa., February 17, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: The substantial increase in the self-employment tax that has been proposed by the National Commission on Social Security Reform ("National Commission") is of great concern to the American Baptist Churches in the U.S.A. Our denomination consists of approximately 6,000 churches with an estimated 1.6 million members and some 200 associated institutions and organizations. There are over 4,000 ordained minister of the denomination, practically all of whom participate in the Social Security System.

If the tax proposals of the National Commission become law, the ministers of our denomination will be subjected to a percentage increase in their taxes that is completely disproportionate to the increase that will be imposed upon employees and high-bracket self-employed individuals. The impact of the higher taxes would be very severe because ministers as a rule have low incomes and the great majority of them are already having difficulty supporting themselves and their families. We are writing to urge that this inequitable tax burden upon ministers and other low income self-employed persons be alleviated before the proposals of the National Commission are enacted.

For purposes of the Social Security System, ministers contribute at the rates established for self-employed individuals. Proposed legislation (S.1, 98th Cong., 1st Sess.) based on the National Commission report would increase the tax on self-employed individuals from its present level of 9.35 percent of the earnings base to 12.70 percent in 1984 and upward to 13.85 percent in 1990. To partially offset this increase, the National Commission recommends, and the proposed legislation provides, a deduction in computing adjusted gross income for Federal income tax purposes of 50 percent of the OASDI portion of the self-employment tax. Because income tax rates are progressive, higher income self-employed individuals will receive the greatest relief from this deduction, while lower income self-employed individuals, such as ministers, will receive the least relief.

We believe that the proposed deduction not only is regressive in effect but fails to recognize the financial difficulties faced by low paid ministers. The present median compensation of American Baptist pastoral ministers, including the value of housing and utilities (usually received in kind), is $17,900. Thus, the median cash income out of which the self-employment tax will be paid falls within the lower family budget ($15,323) determined by the Bureau of Labor Statistics for an urban family of four in autumn, 1981. The median total cash and non-cash compensation falls well below the intermediate family budget ($25,407).

The financial burden which the increased Social Security taxes will place on an American Baptist minister earning median compensation may be illustrated as follows:

1. Total compensation:	
a. Cash salary	$14,320
b. Housing and utilities	3,580
c. Total (a. plus b.)	17,900
2. Current social security tax at 9.35 percent	1,674
3. Proposed social security tax (1984):	
a. OASDI at 11.40 percent	2,040
b. HI at 1.30 percent	233
c. Total tax (a. plus b.)	2,273
4. Increase (3c. minus 2.)	599
5. Proposed deduction (50 percent of 3a.)	1,020
6. Income tax reduction effect of deduction (16 percent of 5.)	163
7. Out-of-pocket increase to minister (4. minus 6.)	436

By comparison, the out-of-pocket cost for a self-employed individual in the 50 percent income tax bracket is substantially less

1. Current social security tax at 9.35 percent of $35,700	$3,338
2. Proposed social security tax (1984):	
a. OASDI at 11.40 percent	4,070
b. HI at 1.30 percent	464
c. Total tax (a. plus b.)	4,534
3. Increase (2c. minus 1.)	1,196
4. Proposed deductions (50 percent of 2a.)	2,035
5. Income tax reduction effect of deduction (50 percent of 4.)	1,017
6. Out-of-pocket increase to taxpayer (3. minus 5.)	179

Accordingly, in the case of an American Baptist minister earning median compensation the out-of-pocket cost of the Social Security tax increase is $436, or 26.05 percent of the present tax, while in the case of a high-bracket self-employed individual the out-of-pocket cost is $179, or 5.36 percent of the present tax. The disparity is even greater between ministers and persons who are treated as employees for purposes of Social Security tax. In the case of employees, there would be no effective tax increase in 1984 (due to a refundable credit proposed by the National Commission), and in later years the out-of-pocket cost for employees will be much less than that for similarly compensated ministers. Thus, the burden of the Social Security tax increase falls most heavily upon ministers and other low income self-employed people who are least able to pay.

To alleviate this situation, we suggest that your Committee delete the 50-percent deduction proposed by the National Commission and substitute in lieu thereof an income tax credit equal to 25 percent of the OASDI self-employment tax. Such a credit would cause the percentage increase in out-of-pocket cost to be the same for all self-employed individuals, thereby rectifying the inequity described above. Accordingly, in the above examples, the out-of-pocket cost for the minister would be reduced from $436 to $89, and the out-of-pocket cost for the self-employed individual in the 50-percent income tax bracket would be the same as in the example ($179).

We respectfully urge that the 25% credit, rather than the proposed deduction, be made a part of any bill that is reported out of your Committee.

Very truly yours,

R. C. CAMPBELL,
General Secretary.

STATEMENT OF THE AMERICAN FOUNDATION FOR THE BLIND PRESENTED BY GLENN M. PLUNKETT, SPECIALIST IN GOVERNMENTAL RELATIONS

The American Foundation for the Blind welcomes this opportunity to present its views on proposals for correcting the financing of the social security system. The American Foundation for the Blind was established in 1921 to serve as the national partner of local services for blind and visually impaired persons. The foundation is a nonprofit agency and its revenues are used to provide services to blind and visually impaired persons, and to more than 700 local, State, regional, and National programs and organizations serving their needs.

In presenting our views on the financing problems of the social security system, we express our concerns not only for those who are blind or visually impaired but for the populace as a whole since the social security system has become a major support of our social system. The problem has become too large for expression of esoteric concern. The actions taken by this committee and the Congress as a whole this year will determine whether those who rely on the system now and those who must plan for the distant future can continue to have confidence in the system, and confidence in those who have the power to maintain it. The proposals you have before you represent a structure which can be used to ensure continued financing for social security. Inasmuch as the report from the National Commission on Social Security reform represents a compromise position which spreads the sacrifices necessary to "rescue" social security, the foundation supports it in principle. However, since the proposals are both political and practical compromise, we see areas in which modifications could be made to make the outcome more equitable. Generally, our proposed modifications would provide more relief to the OASI trust fund and they do not undermine the structure of the reform proposal. Our suggested modifications are identified by name and number relative to the proposals submitted by the NCSSR in its final report of January 20, 1983. They are:

(4) Mandatory coverage of all newly hired civilian employees of the Federal Government, and for all employees of non-profit organizations as of January 1, 1984.

We suggest that the legislation extend coverage to all newly hired civilian Government employees as well as all civilian Government employees who have not reached age 50 as of enactment or January 1, 1984 whichever is later.

The system should be a universal system and civilian Government employees should have been brought in sooner. There is no need to delay any longer. If coverage is extended to those age 50 and under it will give those who are near age 50 sufficient time to become fully insured before retirement. It will also permit those over age 50 to opt for early retirement under the civil service system, if they wish, and not be concerned about security aspects of a new system. This modification would bring into the OASIDI trust funds a significantly increased amount of money and would delay any noticeable outlays for retirements for a relatively long period. This would more than offset some of the proposals that will cause some minor outlays from the funds.

(5) Deny permission for State/local, Government coverage groups to withdraw from the system.

The proposal does not go far enough. Legislation should mandate coverage. Again, the system should be universal. Recognizing the concern with the constitutional question, we comment that the question should be settled and legislation mandating coverage could begin that process. Also, even though the question of collecting the employers share from the State/local entity may be in question, there should be no problem with collecting the employees share and funding the other out of general treasury until the question is settled.

(6) Eliminate "windfalls" for those who spend most of their working years in noncovered employment.

This recommendation, even though aimed at Federal employees who worked at additional jobs to obtain coverage in an effort to provide additional retirement benefits, it will affect those who worked in other noncovered employment, such as churches, and nonprofit organizations and found it necessary to work at more than one job to live. It will certainly affect those whose incomes are generally low, both Government and other types of employees, rather than those who had higher salaries and were able to build higher retirement systems. Since this would affect the low income, the action does not seem necessary since the proposal is to tax one-half the social security benefit for those with high retirement incomes. Also, with coverage of civilian Government employees and nonprofit employees the entire "problem" should wash out soon.

In effect, the proposal seems somewhat punitive against those with low incomes. If a Federal or other noncovered employee had worked at another job or as self employed with wages high enough to escape the so-called windfall designation, and yet his other retirement income was under the taxing proposal's bench mark, he or she is fine. In any event, to carry out this proposal adds to the system and administrative problems of obtaining information to make it work and payment tracking record separate from the OASIDI program.

(7) Consider OASIDI benefits as taxable income for those with adjusted gross income over $20/25,000.

This is the first step toward use of the General Treasury as support for the social security system. Also, it will affect only those who cannot adjust their retirement income through nontaxable investments and other devices. However, if it is absolutely necessary to retain this as a funding device, then it should be open and above board by treating one-half the social security as "income" in determining tax liability, This would not be necessary if modification were made as suggested for coverage of civilian Government employees.

(8) Delay cost of living increases to January 1, 1984.

This proposal really is a double reduction in benefits. The beneficiary has just seen an increase in medicare deductibles and copayments which reduces the amount available for food, clothing, and shelter. For many of them, it will mean forgoing one of the necessities of life. This proposal does not take into consideration the very costly (to the consumer) changes being proposed for medicare.

This proposal indicates a concern for the very poor by providing an additional disregard (of $30 per month) from OASI benefits to those who are eligible for supplemental security income (SSI) and for those who will become eligible with the disregard (since this additional disregard is only from OASIDI, it will not benefit those on SSI who do not have OASIDI income). In protecting the "poorest of the poor", the proposal does not give any assistance to the individual who is actually only one dollar ($1) over the limit for SSI. An individual with OASIDI and the additional disregard, will be eligible with an SSI countable income level of $334 per month: this includes medicaid coverage in most States. On the other hand, an individual with $335 SSI countable income cannot receive SSI and must bear his own medical costs not covered by medicare (unless he can get medicaid as a medical indigent in some States). This individual, and there are great numbers of them since the average OASIDI payment is only $404 per month, ends up with less to live on than the SSI recipient. Such an individual cannot "spend down" to be eligible for SSI. All of this is applicable in the same way at the SSI level of eligibility for a couple.

We suggest that the delay in cost of living be tied to a roll back of medicare increases, and that the SSI eligibility level be established at the poverty level for individuals and couples. Otherwise, the COLA should not be delayed and funds obtained from another source.

(10–11) refundable tax credits for 1984 (and for the self-employed in 1984 and thereafter).

This is another back door mechanism to the General Treasury. We would prefer to see the tax write off for 1984 be deleted and the funds used to finance the "losses" which would occur from retaining the COLA. However, we can understand the equity of a tax write off for half the FICA for self-employed after 1984 and would support that part of the recommendation if equity is permitted to the employee under the internal revenue CODE. Currently, an employee may set aside only $2,000 (2,250 per couple) in an individual retirement account (IRA), whereas the self-employed individual may set aside as much as $15,000 in a Keogh plan, or the self-employed may select a "defined-contribution plan" to set aside investments to fund a specific retirement benefit. Equity would demand the same opportunity for an "employee".

(15) A trigger mechanism to cause COLAs be based on the Consumer Price Index (CPI) or a wage index beginning in 1988.

We suggest that the COLAs be tied to the wage index in 1984 and the mechanism be effective thereafter.

(16) Increase in delayed retirement tax credits.

We suggest that the delayed retirement tax credit be adjusted to cover the same total percentage over a period of seven instead of five years. This suggestion includes a return to age 72 for retirement with payment of benefits regardless of earnings rather than age 70 effective this year. The proposal made by NCSSR shows no short run gain or loss to the OASI funds but indicates a long run loss. Since it is anticipated that some workers will lead longer and healthier lives full payment at age 70 is not really justified.

We believe the suggested modifications are financially sound and do not damage the structural balance between income and outgo determined to be necessary by the NCSSR. We also believe the modifications are more equitable than those presented by NCSSR and would be beneficial to the system over the short and long run.

STATEMENT OF THE AMERICAN MEDICAL ASSOCIATION

The American Medical Association takes this opportunity to comment on the financing problems of the Social Security System.

The short term financing problems of the Old-Age and Survivors (OASI) and Disability Insurance (DI) Trust Funds and their long-range solvency problems represent a major problem for this country today. These problems are not new, representing the second time in less than six years that the Social Security System finds itself on the verge of bankruptcy.

Included within the Social Security system are the Hospital Insurance Trust Fund and the Supplementary Medical Insurance Trust Fund which finance Parts A and B, respectively, of the Medicare program. The Medicare program is a primary source of medical benefits for the vast majority of our population over the age of 65. These citizens, often the heaviest users of medical care, are heavily dependent on Medicare for their medical coverage. Therefore it is imperative that the fiscal solvency of the Medicare program be maintained in order to assure access to high quality care for the nation's elderly. While the Medicare trust funds do not face the immediate difficulties of the OASI fund, pressures are projected to begin near the end of the century. The solvency of the OASI fund is of great concern to the American Medical Association; however, in this statement we limit our comments to concerns relating to the soundness of Medicare trust funds.

Medicare is an "entitlement" program that promises benefits to all who meet Social Security eligibility requirements; it extends its benefits to all who have worked and contributed to the hospital insurance fund. Medicare also provides benefits to disabled persons under age 65 and persons who have end stage renal disease and require transplantation or dialysis.

Medicare benefits and administrative costs are paid from two trust funds created under Title XVIII of the Social Security Act, passed in 1965. Unlike other Federal health programs, Medicare is not financed solely by general revenues. The Hospital Insurance Trust Fund, covering hospital and other institutional benefits (Part A), is financed mainly through payroll taxes on employers and employees. The payroll tax rate for 1982 was 1.3 percent of wages up to $32,400 per employee. The contribution rate for the employer is the same. The tax rate increases to 1.35 percent in 1985 and 1.45 percent in 1986. The wage base is increased each year by a formula reflecting general wage growth. The Supplementary Medical Insurance Trust Fund, which pays for physicians' and other outpatient services (Part B), is financed through Federal general revenues and through monthly premiums paid by Part B participants. The general revenue share of Part B funding has grown from 50 percent in 1971 to 68 percent in 1981.

The Medicare program is intended to provide older Americans with financial assistance in covering the costs of hospitalization and physicians' services, and certain other health services. It was the intent of Congress to assure mainstream medical care for the elderly and not have the aged of the nation shunted into a second-class system of care. In this regard, Medicare has been a success. However, budget problems, the problems of a sluggish economy, and short-term borrowing to bail-out the OASI trust fund raise the specter of a failure of the Health Insurance trust fund to cover its obligations.

Because of the critical nature of the benefits that are promised present and future Medicare beneficiaries, it is important that the Medicare funds be soundly financed. Determining the financial soundness of the trust funds is a difficult task, dependent on the assumptions used and the definition of actuarial soundness that is adopted. According to the Report of the National Commission on Social Security Reform issued in January 1983 the Hospital Insurance Trust Fund is estimated to be depleted by the early part of the 1990's and possibly even by the end of this decade. The

Supplementary Medical Insurance program, which is financed on a year-by-year basis, faces no projected difficulties at present.

During an earlier crisis facing the OASI fund, Congress enacted Public Law 97-123 on December 29, 1981, which allows interfund borrowing among the three social security trust funds. The authority originally was set to expire last December but was extended to July 1, 1983. Recommendation No. 13 of the National Commission on Social Security Reform issued last month calls for the authority for interfund borrowing by the OASI Trust Fund from the Hospital Insurance Trust Fund to be extended until 1987.

Reportedly more than $12.4 billion has been borrowed from the Hospital Insurance Trust Fund already, and further large borrowing is expected. In considering reforms affecting the OASI Trust Fund, Congress must also address the issue of the Hospital Insurance Trust Fund and provide assurances that the hospital fund will be restored to full strength as soon as possible to avoid a Medicare funding crisis created solely as a result of interfund borrowing. We do not believe that Medicare beneficiaries should be penalized, possibly by benefit cutbacks, due to a Medicare bail-out of Social Security.

We recognize the difficulty of the issue facing the Congress with respect to Social Security and appreciate the efforts of the National Commisison on Social Security Reform. The AMA truly hopes that Congress will act to provide both a short-term and a long-term solution to the problems of financing Social Security. We urge Congress to avoid the fate of the last major modifications in the Social Security program which were intended to carry Social Security "through the end of the century" yet proved to be little more than a "band-aid" solution that lasted only a few years before severe problems resurfaced.

There is a need to do what is necessary, i.e., to "bite the bullet"; in that regard, the AMA supported the provision in TEFRA to subject federal employees to Medicare contribution requirements; likewise, the AMA supports the recommendation of the Commission on Social Security that new federal employees be asked to contribute to Social Security. The Congress should explore the desirability of including all federal employees within the system. In addition, the AMA offers the suggestion that Congress may wish to consider increasing the HI portion of the Social Security FICA tax on employees and employers. The contribution rates, as indicated earlier, are only a little over 1 percent of wages and haven't experienced a significant increase in many years. An increase in this contribution will help to assure the continued viability of the Medicare Hospital Insurance Trust Fund and thus avoid solvency difficulties in the future.

STATEMENT OF GEORGE D. WEBSTER ON BEHALF OF AMERICAN SOCIETY OF ASSOCIATION EXECUTIVES

SUMMARY

The American Society of Association Executives opposes the National Commission's recommendation that Social Security coverage be extended to all nonprofit employees for two reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both state and local employees and federal employees. Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs. In lieu of this recommendation, the American Society of Association Executives asks that nonprofit organizations presently not in the Social Security system be allowed to remain out of the system, or, failing that, that Social Security coverage be extended only to newly hired nonprofit employees.

STATEMENT

My name is George D. Webster and I am a partner with the Washington, D.C. law firm of Webster, Chamberlain & Bean. This firm is general counsel to the American Society of Association Executives (ASAE).

ASAE is a membership organization consisting of membership in excess of 10,000 individuals. These individuals are executives of trade, industry and professional associations located throughout the United States. It is by far the largest association of such executives and the membership of the various organizations represented by the individual members of ASAE exceeds 30 million. Many ASAE members are executives of Section 501(c)(3) nonprofit organizations which are presently not in the Social Security system.

I am testifying today on behalf of ASAE in regard to the National Commission's recommendation that Social Security coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations. This recommendation, if adopted by the Congress, would affect approximately one million nonprofit employees not presently covered by the Social Security system.

ASAE is opposed to this recommendation of the National Commission because it unfairly and without justification discriminates against nonprofit employees as compared to both state and local employees and federal employees. ASAE is not opposed to the extension of Social Security coverage to nonprofit employees in principle, but believe that nonprofit employees have been unfairly singled out for the most abrupt and drastic change in coverage. In short, ASAE believes that the extension of Social Security coverage to presently uncovered sectors of the labor force should be done on a fair and equal basis.

With respect to state and local employees, the National Commission's recommendations would allow state and local governments which never elected to join the Social Security system or which have withdrawn from the system to remain out of the system. In contrast, nonprofit organizations which never elected to join the system or which have opted out will be required to return to the system and immediately cover all their employees on January 1, 1984.

With respect to federal employees, the National Commission's recommendations would extend Social Security coverage only to federal employees newly hired on or after January 1, 1984, but would require nonprofit organizations to extend Social Security coverage to all of their employees on that date.

ASAE believes that fundamental fairness requires that nonprofit employees should be accorded the same and equal treatment as state and local employees or, at the very least, as federal employees. The National Commission has, in effect, recommended that the status quo with respect to state and local employees be preserved on a group basis at the employer level and that the status quo with respect to federal employees be preserved on an individual employee basis. Yet with respect to nonprofit employees, the National Commission has recommended that the status quo be destroyed for all nonprofit employees. ASAE cannot perceive, and the National Commission certainly has not articulated, and reason for this disparate treatment of nonprofit employees.

In fact, whatever may be the reasons for phasing in coverage of federal employees and for allowing nonparticipating state and local governments to remain out of the system, there are equally food reasons for extending the same treatment to nonprofit employees. Many nonprofit organizations which are not in the Social Security system have provided alternatives to Social Security with which their employees are much happier. Adoption of the National Commission's recommendation would cause greatly increased payroll costs for these nonprofit organizations. These large increases in payroll costs would force these nonprofit organizations to drastically reduce or even eliminate current employee benefit programs and would, as a result, destroy legitimate employee expectations and engender serious employee dissatisfaction.

In conclusion, ASAE opposes the National Commission's recommendation on the extension of Social Security coverage to all nonprofit employees. In lieu of this recommendation, ASAE suggests two alternative proposals. First, nonprofit organizations which are not in the Social Security system, like nonparticipating state and local governments, should be allowed to remain out of the system. Failing that, Social Security coverage should, at the very least, be extended only to newly hired nonprofit employees in a manner consistent with the treatment of federal employees.

Statement of the Associated Builders and Contractors, Inc.

SOCIAL SECURITY

ABC is a national construction trade association representing over 16,000 member firms in 77 local chapters throughout the United States. Our membership includes general contractors, subcontractors, suppliers, and associates. Over 90 percent of our firms are classified as small businesses and employ in excess of one million people.

As does any national business association, ABC has a vested interest in all Federal legislation directly affecting our membership. Social security reform is certainly such a legislative issue, not only in terms of retirement security for our members and the people they employ, but also in terms of each firm's annual operating budget. As the members of this subcommittee well know, the decisions about social security benefit and contribution rates made this year will definitely influence employment, savings, and investment patterns well into the next century. Moreover, the social security reform package ultimately adopted will have a tremendous impact on the confidence we have in our Government to honor its obligations to workers and retirees alike.

The Associated Builders and Contractors would first like to commend the National Commission on Social Security Reform on overcoming significant odds to present Congress and the administration with a structurally sound blueprint for necessary reform of the retirement system. Above all, the spirit of compromise which dominated the Commission's final negotiating sessions must be maintained if we are to preserve for future generations the concepts of equity and adequacy upon which the system was founded fifty years ago.

ABC shares the sentiments of President Reagan and Speaker O'Neill in admitting that there are parts of the compromise we would rather not see enacted. Our members are independent and well-versed in the art of self-sufficiency and many would like to have the system changed to a voluntary pension program. Pragmatically speaking, however, such a dramatic change is neither practical nor possible at this juncture. Consequently, ABC agrees that a series of reforms must be adopted today to guarantee the financial solvency of the system through the 1980s.

After considering the dynamics of the pending crisis in social security, ABC has decided to endorse the major components of the Commission's report as a necessary, short-term solution to massive projected deficits in the retirement system's reserves. However, as members of the Commission themselves have acknowledged, the recommended tax and benefit changes cannot and will not erase the long term funding inadequacies inherent in the present retirement system. Therefore, ABC strongly urges the committee to press for comprehensive reform legislation eliminating the need for periodic adjustments and firmly re-establishing social security as a basic retirement insurance program to be supplemented with private pensions and personal savings.

With respect to key recommendations made by the National Commission on Social Security Reform, we would like to share the following comments and observations with members of the subcommittee:

The Associated Builders and Contractors endorse the proposal to bring all new Federal employees into the social security system. We also support proposed restrictions on the ability of state and local governments to opt out of the social security system. Moreover, we feel that this recommended change could be improved by requiring all Members of Congress to similarly participate. Such a change would not add much in terms of revenue, but congressional accountability would doubtlessly be increased.

We endorse the Commission's proposal requiring the self-employed to pay payroll taxes equal to the amount now paid by employers and employees together. It is time that all contributors were treated equally. By the same token, since the self-employed will be asked to shoulder the same employer tax burdens, it is only fair that self-employed be allowed a fifty percent business expenditure deduction.

It is regrettable that sacrifice is required of anyone, but we all realize the magnitude of the projected shortfall in social security funds—$150 to $200 billion over the next seven years—requires that the burden be shared by workers and retirees alike. Consequently, we endorse the Commission's recommendation to delay the July 1983 cost-of-living adjustment by six months. We also applaud the Commission's decision to introduce the concept of a COLA "stabilizer" which would automatically substitute increases in wage rates for increases in the Consumer Price Index to calculate annual raises in years when reserves fall below twenty percent of expected needs. We only wish this change would be implemented before the 1988 effective date called for in the commission report.

The primary concern of many business groups is the proposed escalation in previously scheduled payroll tax increases during the next seven years. Under current law, employer payroll taxes will increase by a maximum of $1,848 during this period, and if the Commission's recommendations are approved, the period over which these additional taxes can be absorbed will be significantly abbreviated. As a result of the accelerated tax hikes, an extra $20 billion will be transferred from the private to public sectors between now and 1989. It is no secret that funds which might have been used for capital investment or the hiring of new employees will be used to meet Social Security obligations. It is also no secret that many businesses will attempt to pass higher overhead costs forward by raising prices, a step which can only lead to a renewed round of inflation. In short, at a time when unemployment is running above 10 percent nationwide and above 20 percent in the construction industry, a payroll tax increase of this magnitude will be difficult to swallow.

Unfortunately, an escalation of scheduled payroll tax increases appears to be an inevitable component of any social security financing package adopted this year. Given the reality of the projected shortfalls and the necessity for immediate action, ABC agrees that the major tenets of the Commission's reform proposal must be enacted. Taken together, these changes will cover two-thirds of the system's projected shortfall, solving the immediate problem.

But acceptance of such a short-term solution can neither relieve our anxieties about the future of the social security system nor convince the public that Congress will not be back debating the tax hike/benefit cut issue five years from now. ABC asks Congress to make the tough decisions necessary this year to adequately cover 100 percent of the projected shortfall and eliminate the need for additional legislative changes, including payroll tax hikes. Above all, we implore the Congress to begin one phase-in or several key changes in the structure of the retirement system as an alternative to continued dependence on tax revenues. In this respect, ABC suggests the following:

The retirement age should be increased. There is no question that people are living longer, are healthier, and are willing and able to remain in the workforce past the traditional 65 year old retirement age. Congress should take advantage of the lead time they have and gradually phase-in a higher (66–68) retirement age which could thereafter be indexed to life expectancy rates.

Congress must begin to phase-in some long overdue changes in the replacement ratio used to calculate social security benefit levels. Although we must preserve a benefit structure which is both adequate and equitable, we must re-establish social security as one of several sources of post-retirement income. Along these same lines, we must continue to promote personal retirement planning and the use of individual retirement accounts (IRA) and Keogh Plans.

Although annual cost-of-living adjustments are desirable during inflationary periods, the use of the Consumer Price Index (CPI) to calculate social security COLA's has resulted in benefit hikes which have far outpaced the growth or wages. Congress should call for the immediate substitution of a more accurate and responsible benefit adjustment indicator.

Together, these three changes would cover the remaining shortfall projected for the social security system by the National Commission. If versions of all three changes—an increase in the retirement age, a modest restructuring of future benefit levels, and the use of a revised index for calculating annual cost-of-living adjustments—were adopted today, the need for further payroll tax increase could be eliminated as could the perennial temptation to dip into general revenues to meet obligations. Unless or until Congress decides that the social security will no longer be a self-sufficient retirement insurance system, we must do all in our power to see that the program remains independent and free from the constraints imposed by general revenue funding. The changes outlined above will insure that continued self-sufficiency.

In closing, the associated builders and contractors would like to reiterate its respect for the National Commission and the Members of the House Ways and Means and Senate Finance Committees for joining together to draft a responsible social security reform bill. The Commission's recommendations provide a platform for the adoption of comprehensive social security reform legislation ensuring both the short and long term solvency of the retirement program. We hope members of the committee will consider both our concerns and our recommendations when making decisions relative to the as-yet unfunded liabilities.

Thank you.

STATEMENT OF BAKER INTERNATIONAL CORP.

Baker International Corporation of Orange, California appreciates this opportunity to comment on the recommendations of the National Commission on Social Security Reform. In particular, we wish to advise you of our concerns over the Commission's recommendation that employee contributions to cash or deferred profit-sharing plans under section 401(k) of the Internal Revenue Code be subject to Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI) taxes. Currently, these contributions are excluded from the tax and are not deemed covered earnings for purposes of social security.

Baker International was founded in 1913 and enjoys a fine reputation in the oil service and mining equipment industries. Employing more than 24,000 people in 32 states and around the world, Baker's revenues are in excess of $2 billion.

In 1981 Baker adopted a thrift plan, pursuant to section 401(k) of the Code. The Baker Plan, which was one of the first such plans in the United States, has been enthusiastically received by Baker's employees at all wage levels. The Plan provides that the Company will contribute 50 cents for each dollar contributed by participating employees, with an advantageous two years vesting provision. Participants are only permitted to withdraw funds from the Plan upon retirement, death, or termination. This limited withdrawal feature was intended to encourage employees to look to the Plan as a long-term investment to provide financial security during their retirement, rather than as a short-term investment vehicle.

Recognizing that many younger employees might hesitate to participate in such a long-term plan, a loan feature was included. Our surveys of employees show that the loan provision is a critical consideration for younger employees. However, there has been almost no actual use of the loan provision. The loan feature requires that any loan from the Plan be paid back by equal payroll deductions over not more than 3 years. The interest rate charged on these loans is prime plus 1 percent. Our loan terms are overall more stringent than the general limitations contained in the pension provisions of the Tax Equity and Fiscal Responsibility Act of 1982.

Under the Baker Thrift Plan, participants have a choice of three investment options: they may invest in a Guaranteed Fund which guarantees principal plus a stated interest rate each year, they may invest in a Common Stock Fund, or they may invest half in the Guaranteed Fund and half in the Common Stock Fund. About 60 percent of our participating employees select the Guaranteed Fund, about 26 percent select the Common Stock Fund, and about 14 percent select the half-and-half fund. During calendar year 1983, the interest rate for the Guaranteed Fund is 11 percent, and during the Plan year ending December 31, 1982 the annualized rate of return on the equity fund was about 30 percent.

The Baker Thrift Plan, as is the case with most similar plans, is expensive to administer. Detailed and precise records must be carefully maintained for each participating employee. The records must show the investment elections and the rates of return for each employee's account. These choices and election opportunities must be communicated to employees each year. All of this administrative effort is costly and should give any employer considering adoption of a 401(k) plan cause for concern. Our own experience at Baker is that good communications and good record keeping are the heart of the success we have had with our 401(k) Thrift Plan.

In spite of the administrative costs involved, we at Baker established a section 401(k) plan because of our belief that employees should be encouraged to provide for their retirement needs. Furthermore, we, as other corporations with existing section 401(k) plans, undertook this costly endeavor in reliance upon the fact that the participating employee's contributions would not be considered "compensation" for FICA tax purposes. Baker, as the employer, is not paying FICA taxes on these employee contributions, and we calculate that this saving pays a substantial portion of our administrative costs. Of course, the saving does not pay any of the costs of the employer's matching contribution.

It is our understanding that one of the justifications for subjecting employee contributions in existing section 401(k) plans to FICA taxes is the concern that employees are being denied benefit credits to the trust funds thus reducing their future benefits. However, our experience with the Baker Plan indicates that this loss by participants of FICA contributions will have only a minimally adverse effect on their social security benefits. This minimal loss is far outweighed by the increased retirement protection they will experience through their 401(k) Thrift Plan.

The proposal to apply FICA taxes to employee 401(k) contributions would undermine the Congressional intent. Such FICA taxes would discriminate against lower paid employees and would reduce personal savings. The discrimination would occur because most higher paid executives exceed the $35,100 FICA wage base, so the proposal being considered wouldn't affect them. However, for the vast majority of plan participants, the additional FICA taxes would be burdensome and in many instances might cause them to lessen their savings, which is contrary to the economic objectives of our nation's recovery plan.

Furthermore, we are concerned why section 401(k) plans have been pulled out for discriminatory treatment while other qualified profit sharing and pension plans would continue to be exempt from FICA taxes.

For all of these reasons, we at Baker believe that the recommendation by the National Commission to subject employee contributions to existing section 401(k) thrift plans to social security taxes is unwarranted. Therefore, we would urge the Committee to not include in its social security reform legislation any provision which would treat section 401(k) plan deferrals as "compensation" for OASDI–HI taxes.

STATEMENT OF GEORGE BENNS, SILVER SPRING, MD.

Two years ago my testimony used actual facts and figures to show how Social Security can be funded for over $300 billion dollars and stopping inflation. The same facts and figures were used in my testimony in the house and Senate 1983 Budget hearings.

At least 6 members of Greenspan's commission have copies of that report plus at least 100 other Congressmen, individuals, organizations, media figures, economists, etc. and not one has even given me one minute to explain or dispute my facts. Most of them are testifying here.

The Groups that protest the loudest are the biggest beneficiaries from Social Security such as Government employees and retirees, Unions, double dippers, etc. whose unfunded pensions are $6 trillion and the deficit spending of all Local, State and Federal Government will add another $4 trillion to that amount. Following are parts of my testimony.

1. The employer shall pay the entire 13.4 percent tax on all earned and unearned income, all fringe benefits perks, hospital payments, entitlement payments, etc. The personal 1982 income of $2.57 trillion dollars plus the $500 billion of the underground economy would bring in over $350 billion. It would add $46 billion more take home pay to those who paid $85 billion as their share in 1982.

2. All entitlement benefits to be taxed. Since the average social security check is $5,400, the retireees will only pay $4 billion in income taxes.

3. All Government pensions are a drain on the taxpayers. For each dollar the employee contributed, the Government pays $4.50 which will soon rise to $7. Congress appropriated $175 million for 8,000 District of Columbia retirees, in Maryland $432 million to a fund that is almost dry.

4. The main causes for all our problems are inflation, and unemployment caused primarily by two unconstitutional agencies, the IRS and FRB. The FRB provides cheap money for money speculators and the IRS has created almost $300 billion of tax shelters. A pay as you go plan for all Government budgets and all corporations and businesses with no deficit spending or borrowing that eventually is paid by the ones on the bottom of the economic ladder. Eliminate the $12 billions of depreciation and interest of AT&T and rates can go down by 20 percent.

5. There are 3 ways that the combined Local, State and Federal debts of $1.6 trillion can be reduced to zero. One is by vesting part of social security. Interest rates would plummet when these money managers had no places to invest except in supply side enterprises that create jobs.

6. The economy of any country in the world depends on the after tax spendable money of every citizen. Ten million illegal aliens are doing the jobs that the welfare people are too proud to take. Expel these illegals as Nigeria is doing. 75 percent of our workers spend all they make on the necessities and over half of these are in a poverty or near poverty level. My testimony shows how 5 million jobs can be created in the private sector that have been eliminated by greedy corporations that export factories and jobs to foreign countries.

7. All IRA, Keogh, All Savers and any other tax free obligations to be handled by the social security administrators. Use of this cheap money by Banks is a $20 billion or more subsidy by the taxpayers.

8. By implementing these proposals, social security as we know it now, can be phased out in 30 years and replaced by a much better retirement plan for all the young for whom the present plan is truly regressive.

(Included is my social security and budget testimony.)

STATEMENT OF JOHN TSCHOHL, PRESIDENT, BETTER THAN MONEY CORPORATION

Mr. Chairman, my name is John Tschohl. I am President of Better Than Money Corporation, a small training and development consulting firm based in Minneapolis. We have 13 employees and 150 Certified Consultants and Representatives scattered throughout the country who market our programs. During 1983 we expect to increase this to 500 Certified Consultants. All are independent contractors and self-employed representatives.

I am also Chairman of the Minnesota Coalition on Small Business. A statewide group of almost every major small business association or group in Minnesota. The major objective of this group is to ensure implementation of the 1980 Recommendations from the White House Conference on Small Business. In addition, I am Chairman of the Minnesota Delegation to the White House Conference on Small Business. I am also a member of SBA's Small Business Task Force on Social Security Reform.

In January of 1980, we included Social Security Reform as one of our top 15 White House Conference Small Business Recommendations. It was a major issue among small business in its efforts to control inflation and Government spending. The White House Conference on Small Business strongly recommended to:

"Reform the Social Security System by including, where constitutionally possible, all public and private sector employees as contributors and more closely tie benefits to contributions to move the system toward actuarial soundness. Limit benefits to the original old age and survivor benefits. Freeze the tax base and tax rate at the January 1980 level. Eliminate double dipping."

Since January of 1980, Congress has virtually ignored this Recommendation. Its impact would reduce inflation, the deficit and provide an opportunity for small business to survive and grow. Most importantly, it would save the Social Security system.

This last year has been tough on small business. My company no longer can afford to pay salaries and Social Security Benefits. Now only three people receive company paid Social Security Benefits. One of these is myself, but I personally didn't pay any Social Security taxes in 1982 because I used my salary to keep the business afloat. I lived off my investments. Only Government seems to be able to afford fat salaries and fringe benefits.

In my company, we cut expenses extensively and terminated salaried employees who couldn't afford to be self-employed independent contractors. Every small business person that I know took a beating in 1982 and most of us barely made it to 1983. The 45 percent tax increase on self-employed and independent contractors is intolerable. It will seriously jeopardize my ability to reach our increased hiring objectives in 1983.

The President's Commission on Social Security Reform has ignored our 1980 Small Business Recommendation. Its feeble attempt to include only new Government employees as contributors was the only portion of our 1980 Recommendations that it addressed. Small business is still committed to passage of legislation that: 1. Includes all public and private sector employees as contributors. 2. More closely ties benefits to contributors to move the system toward actuarial soundness. 3. Limits benefits to the original old age and survivor benefits. 4. Eliminates double dipping. 5. Freezes the tax base and tax rate at the present rate with no increases.

Virtually no one 30 years or younger expects to receive Social Security; I am 35 years old and I'm not sure even I will receive Social Security. The level of trust and confidence in the Social Security system is non-existent.

The average age of the members of the Greenspan Commission is 59 years. They do not represent small business or those 40 years and younger. The Commission took from the haves, mortgaged the futures of my family, my three year old daughter and my one year old son to satisfy their own political ambitions and constituencies. The entire program is based on tax increases and no permanent reduction in benefits. The Congressional members of the Greenspan Commission didn't even have the courage to include themselves in these outrageous tax increases. Congress can not afford to keep spending like drunken sailors.

Small business cares about Social Security and wants it to survive. The Greenspan Recommendations are not a permanent solution. They are designed to only save the political futures of those in Congress and the Commission. Unfortunately, those 40 years and younger were not represented on the Commission and yet we have to pay for Recommendations that significantly increase our taxes for a plan we will never collect because of the poor judgement to continue spending more money than is available in the system. At some time Congress must place the future of this country, jobs, your children and grandchildren above your own political ambitions.

Senator Boschwitz has provided 19 ways of slowing the growth of Social Security. None are drastic or tough to implement. They all require Congress to be honest with themselves and to move the system toward actuarial soundness. Not all 19 are required. Regardless of whether you agree with all of Senator Boschwitz's numbers or projected savings, the point is that specific, measurable, reasonable and realistic savings worth billions of dollars can be achieved with retired people on Social Security largely uneffected.

A copy of Senator Boschwitz's Recommendations are enclosed.

Yes, Congress can save Social Security. No, it doesn't have to sell or mortgage our futures, our children and grandchildren's futures by enacting any increase in the tax rate or base. Social Security is a non-partisan issue. It's simply a question of who has guts and who doesn't, of who can make hard decisions and who can't.

Economic recovery is just beginning. New job creation comes primarily from small business. Don't cut off the legs of small business by increasing the tax on labor-on jobs. Whatever you tax you will get less of and whatever you subsidize you'll get more of. During the last five years Congress has subsidized retirement and taxed labor. Let's get America back to work—now!

Small business has little cash and no profits and hugh debts. We barely survived 1982. Mr. Chairman, small business, farmers and those 40 years and younger need your help. When you vote on Social Security, think first of your children and grandchildren. It's their future you are really voting on.

Thank you.

Attachment to the statement follows:

A Report to Minnesota: The Economy

from

Senator Rudy Boschwitz

Spring 1982

SAVING SOCIAL SECURITY

or. . . How to make sure our children and grandchildren also collect Social Security

or. . . Watch out, Rudy. Fooling with Social Security is political dynamite. . . (but it must be done!).

In my first budget newsletter (Budget I) I showed that by slowing the growth of all government programs, the budget could be balanced by 1986 – perhaps 1985. No part of the budget would be cut. Every part would grow slowly for a 4-5 year period.

With the sole exception of defense, no judgments were made that one program should grow more quickly than another. If we get into those arguments, they will never cease and the budget will never be balanced. If we want to lower interest rates, the best tool we have is to balance the federal budget and get the government out of the money market, where it is borrowing 50 percent of the available funds.

I noted in "Budget I" that the 1982 Federal Budget consists of 4 parts, and that each part had the following percentage and dollar amount (in billions) in total budget outlays:

The 1982 Budget — it's 4 parts (in billions)

Defense	Interest	Entitlements	Appropriated	Total:
24 %*	11 %	47 %*	18 %	= 100 %
$172	$83	$343	$130	= $728

*military pension included in Entitlements, not Defense

Through re-estimates, some of the figures I have shown above have changed a bit, but for consistency, I'll use them again as a "baseline."

Appropriated programs are not directed at individuals, but at policy goals: education, good roads, clean air, housing, etc. They require annual appropriations and so lowering the growth rate is comparatively easy to achieve.

Entitlements are programs where payments are made to a specific individual (Social Security, unemployment, AFDC) or payment is made to a hospital, nursing home, or doctor for care given a specific individual (Medicare, Medicaid). Entitlement programs pay out automatically. If you are "entitled," you get paid without regard to the cost to the government. There is no annual appropriation so control of spending is difficult.

Total entitlements that cost $28 billion in 1961 zoomed to $343 billion in 1982 (a 1,225% growth). I don't criticize the existence of these programs at all. The needs they fill are vital. But if we're ever going to get a hold of our government's affairs, we have to slow their growth.

During the 4 budget years of 1983, 1984, 1985 and 1986, the entitlement programs are projected to cost $1,673,000,000,000 (one trillion 673 billion). Of this amount $301 billion is the total 4-year increase over the 1982 level. It is my goal to reduce this 4-year increase by $195 billion, still allowing growth of $106 billion.

It is considered close to political suicide to fool with entitlements or their growth rate. . . but we must. It is the purpose of this budget newsletter to discuss options of how and where to change the largest entitlement of all: Social Security.

Social Security is nearly half of all the entitlements combined, so we should seek to slow the growth of Social Security by nearly $100 billion over these 4 years. I am presenting here 19 ways of slowing the growth of Social Security. They total $167 billion in savings, so to achieve the objective of slowing the growth, all need not be adopted. Other than the 4-year COLA (cost-of-living adjustment) change, the retired people on Social Security are largely unaffected by these proposals.

I hope you'll agree after reading this that government growth can be slowed without unduly affecting the lives of those who rely on Social Security.

Thirty-six million people rely on Social Security. Most are elderly. Most vote. The cautious politician won't touch this, so pardon me for being incautious. But, if we don't do something, Social Security won't be around for the children and grand-

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SOCIAL SECURITY SAVINGS TABLE

(In billions. Example: 3.400 is $3 billion 400 million and .700 is $700 million)

Item number corresponds with number in text		1983	1984	1985	1986	TOTAL
1.	(eliminate foreigners)	.700	.800[e]	.900[e]	1.000[e]	3.400
2.	(raise to 120 qtrs)	.500	2.000	3.500	4.200[e]	10.200
3.	(earn 1 credit per quarter)	.005[e]	.020[e]	.035[e]	.050[e]	.155
4.	(cover new government workers)	.300	1.100	2.000	3.000	6.400
5.	(no children's benefits in early retirement)	.030	.200	.400	.500	1.130
6.	(increase self-employment tax)	.800	1.900	2.000	2.700[e]	7.100
7.	(increase work incentives)	.900[e]	1.400[e]	2.000[e]	2.700[e]	7.000
8.	(raise offset age)	.815	1.170	1.245	1.500[e]	4.730
9.	(tax Social Security if there is large outside income)	3.200	3.800	4.600	5.400	17.000
10.	(raise age to 65 + 3 months)	2.700[e]	3.000[e]	3.000[e]	3.000[e]	11.700
11.	(raise age to 65 + 6 months)	5.400[e]	6.000[e]	6.000[e]	6.000[e]	23.400
12.	(COLA 3% except lowest 25% of recipients)	7.500	13.600	20.800	30.000	71.900
13.	(3 month COLA delay)	2.800	3.400	3.300	3.400	12.900
14.	(½ index for bendpoints)	.025	.200	.500	1.000	1.725
15.	(eliminate children's benefit if parents' income $25,000)	.500[e]	.700[e]	1.000[e]	1.200[e]	2.500
16.	(increase benefit computation by 3 years)	.010	.100	.200	.300	.610
17.	(eliminate parents' benefit if child is below age 6)	.050	.170	.300	.410	.930
18.	(cap disability benefits)	.400	.400	.450	.450	1.700
19.	(increase quarters needed for disability)	.200	.800	1.700	3.300[e]	6.000
						167.080*

e = office estimate

* = item 11 not included in total

children of those people receiving Social Security today.

Some facts: (1) the average Social Security recipient now gets back $5.60 for every $1.00 they put in; (2) there are 3 people working for every one drawing Social Security (in 1945 there was a 42:1 ratio; in the year 2020 the ratio will be close to 2:1); (3) despite all the scare stories you might hear, Social Security is not going to go broke but it does need some repairs. Here's a list of 19 repairs and what each one would save every year.

1. Limit Social Security benefits paid to foreigners not living in the United States (this limitation would not apply to Americans living abroad). From now on they receive no more in benefits than they paid in. In one case a foreigner living in his country paid in $25 and collected more than $11,000 in benefits; another paid $397 into Social Security and collected $42,000 in benefits. Annual savings of this limitation: $700 million. Over 4 years the savings total $3.4 billion.

2. Increase immediately the number of quarters (3-month periods) one has to work to qualify for full Social Security. Currently a person has to work only 31 quarters (7 3/4 years) to qualify for maximum benefits. That's what causes the so-called double and triple dipping and allows a government worker to earn one (sometimes two) pensions and then work for less than 8 years and get Social Security. Meanwhile a person who works a lifetime of 40-45 years in the private sector may get only Social Security. While making exceptions for self-employed people only recently included within the Social Security system, raise the number of quarters one has to work to receive full Social Security from 31 (7 3/4 years) to 120 (30 years), except women for whom the number of quarters would be raised to 60, if they spent 60 or more quarters raising a family. Savings from this would be $500 million in 1983, and total savings of $10.2 billion over the next 4 years (1983-86).

3. As stated, currently you only have to work 31 quarters to get full Social Security benefits. A quarter is a 3-month period during which a worker earns more than $340 (that's less than $30 a week). Suppose a worker earns $1,360 (4 times $340) in that quarter. Under present rules a worker gets credit for 4 quarters, even if he doesn't work at all the rest of the year. Change this rule. One quarter's work should only get one quarter's credit. The savings would be $5 million in 1983 and $155 million over the next 4 years.

4. Require all new government employees (federal, state and local) to pay into Social Security. This would bring about $2 billion in new revenues into the trust fund in 1984, and over $19 billion over the next 5 years. Net income to the government would be $300 million in 1983 and $6.4 billion in 1983-86. This is less than the $19 billion that would go to the Social Security trust fund because some of those affected would stop paying civil service retirement taxes.

5. If a worker takes early retirement at 62 and has children under 18, the worker receives benefits and the kids receive separate benefits as well. If a worker retires early (at age 62) and has young children under 18, the kids should not get benefits until the retiree is 65 (unless he retired early for health reasons). Savings in 1983 are $30 million, and a total savings of $1,300,000,000 over the next 4 years.

6. Self-employed people withhold less Social Security tax on their wages than a worker and his employer combined by quite a bit (their tax rate is 70 percent of the rate paid by workers and employers together). Increase the self-employed person's withholdings by 2 percent. Additional revenue in 1983 is $800 million and in the 1983-86 period a total of $7.1 billion.

7. Give incentives to keep working beyond 65. Some people don't want to retire anyway, and shouldn't. If a person retires at 66, the worker should receive an extra 5 percent (105 percent of the regular Social Security benefit); at 67 an extra 11 percent (5 percent plus 6 percent); at 68 an extra 18 percent (5 + 6 + 7 percent); at

69 an extra 26 percent (5 + 6 + 7 + 8 percent) and if the worker retires at 70 an extra 35 percent (5 + 6 + 7 + 8 + 9 percent). In other words a person retiring at 70 would get an extra 35 percent on his Social Security check every month. If even ½ of 1 percent of the people delayed retiring, savings in 1983 would be $700 million and in the 1983-86 period would total $5.5 billion. In addition, not only would there be savings in Social Security payouts, the system would receive $200 million more in income in 1983 and $1.5 billion for the 1983-86 period. Would this cost the Social Security System money in the long run? Only if the recipient lives past 90.

8. Currently people over 72 who keep working (going down to 70 in a couple of years) receive benefits no matter how much they earn. People under 72 lose $1 of Social Security benefits for each $2 of income they earn over $6,000. Raise the age to 75 and leave it there. This would save $815 million in 1983, and $4.7 billion in the 1983-86 time period.

9. Tax Social Security payments if the Social Security recipient has income exceeding $20,000 besides Social Security ($25,000 for couples). Additional revenues in 1983 would be $3.2 billion and in the 1983-86 time period would total $17 billion.

10. The 65-year-old retirement age was established in 1937 when average life expectancy was 64 (it's no wonder the Social Security fund had surpluses in those days!). People live longer and healthier lives today. Raise the 65-year-old age to 65 + 3 months (and the 62 year early retirement age to 62 years + 3 months). The savings in 1983 would be $2.7 billion and $11.7 billion for the 4 years 1983-1986.

11. Raise the retirement age to 65 years + 6 months (probably politically impossible and perhaps not necessary as adequate savings can be found elsewhere). The savings in 1983 would be $5.4 billion and $23.2 billion for the 4 years 1983-86.

12. The COLA is the annual cost-of-living adjustment. This means the Social Security benefits are raised each year for inflation. There has been much talk by senior Republicans and Democrats to eliminate the COLA altogether for one or more years or otherwise drastically reduce the COLA. Such drastic surgery isn't necessary.

My approach on the cost-of-living adjustment (COLA) is to lower it for a 4-year period only. However, continue the full COLA for the lowest 25 percent of Social Security recipients. The COLA on Social Security is a recent addition (1975) and gives Social Security recipients a boost each year to keep [illegible] inflation. It was not a p[illegible] the original Social Security system and very few private pension plans have any COLA at all. In recent years Social Security benefits have gone up faster than wages, though no one could maintain that Social Security recipients are getting rich. The COLA is now the inflation rate. Lowering the COLA to 3 percent in 1982 (and it looks like inflation will be only 5 percent) and then by 3 percent less than the inflation rate for the 3 following years would save $7.5 billion in 1983 and (an amazing) $72 billion over the 4 years 1983-86.

Controlling, not cutting Social Security

Minnesotans visiting in Washington often ask me if Social Security will be around when they or their children retire. I tell them yes, but some changes will be necessary to keep the costs of the program under control.

13. The COLA now comes on July 1. This goes back to the time when the government's financial year began on July 1. The government's financial year now begins on October 1. If the COLA adjustment is given on October 1 each year (not July 1), the savings in 1983 would be $2.8 billion and for the 5-year period 1982-86 a total of $12.9 billion ($3.4 comes in 1982).

14. For a 4-year period only index "bendpoints" by one-half of the wage index (bendpoints now go up by the entire wage index). Social Security monthly benefits are based on a schedule of percentages of the worker's average monthly earnings. The schedule is:

- 90% of the first $230;
- 32% from $230 through $1,388;
- 15% over $1,388.

$230 and $1,388 are the "bendpoints" and the bendpoints go up every year the same percentage that average national wages go up. This will do more to balance out the Social Security system in the long run than anything mentioned so far. However, it saves nothing in 1983, but in 1984-86 it saves a total of $2.1 billion.

15. If one parent dies, and the remaining parent has an income exceeding $25,000, or eventually marries someone with an income exceeding $25,000, then minor children do not receive survivor benefits. This would save $500 million in 1983, and $2.5 billion in the 4-year period 1983-86.

16. Lengthen the benefit computation period by 3 years. Benefits are determined by applying a formula to a worker's average monthly earnings over a certain time period. In most retirement cases, the averaging period is the number of years after 1950 up until the year the person reaches 62, less the 5 lowest years. Instead of subtracting 5 years from the computation of average earnings, we should drop only 2 years. This would still allow some adjustment for low earnings, but would tie benefits more closely to actual earnings. Savings are $10 million in 1983, and $610 million in the 4-year period 1983-86.

17. Eliminate parents' benefit when the youngest child is age 6. If a worker covered by Social Security dies and leaves a child (or children) each one of the children gets "survivors benefits" until they're 18. If the youngest child is under 16, the surviving parent also gets separate "survivors benefits." This would eliminate the surviving parent's benefits after the youngest child reaches 6 -- not 16. Restricting the parent's benefit to those with children under age 6 would reduce spending by $50 million in 1983, and $930 million over the next 4 years. The child's benefits would not be changed. This proposal acknowledges the major increase in the number of women working in outside jobs over the past decade. When these benefits were first added to the Social Security system most mothers were not employed. This might be considered a pretty "hard hearted" change, and I may be wrong. But I do believe it should be considered. I have had many women employees who returned to work within 90 days of having a baby because her family needed two incomes. Should someone on Social Security be treated better. . . by 16 years? Perhaps, when there is only one parent.

18. Expand workers' compensation offset. About 165,000 people now receiving Social Security disability benefits also receive payments from other federal programs -- veterans compensation, civil service and military disability retirement benefits and blacklung benefits. All these benefits are calculated without regard to what other benefits the person is receiving. However, people eligible for Social Security disability after February, 1981, have a "cap" on their total combined benefits equal to 80 percent of their average predisability earnings. Extending this provision to all recipients (not just

those after February 1981) would save $400 million in 1983 and about $1.7 billion over the next 5 years.

19. Increase disability-insured status to 30 out of 40 quarters. To receive disability benefits, a person must have worked at least one quarter (3 months) for each year of age above 21 and have worked a total of at least 20 quarters of the last 40 quarters. Requiring a person to have worked at least 30 of the last 40 quarters would save $200 million in 1983 and $1.7 billion by 1985. There is some offset here, because there are other programs (less generous than Social Security where a person is deemed to have earned the benefit) that would cover any disabled person.

Not all these changes have to be adopted to put Social Security in good repair. But it was the purpose of this newsletter to outline many possible changes and shows that basic solid coverage remains even with changes that insure the integrity of Social Security for future generations.

RUDY'S SOCIAL SECURITY SURVEY

Of the 19 possible changes discussed, which ones do you agree with?

Item number corresponds with number in text	Agree	Disagree	No Opinion
1. eliminate foreigners			
2. raise to 120 qtrs			
3. earn 1 credit per quarter			
4. cover new government workers			
5. no children's benefits in early retirement			
6. increase self-employment tax			
7. increase work incentives			
8. raise offset age			
9. tax Social Security			
10. raise age to 65 + 3 months			
11. raise age to 65 + 6 months			
12. COLA 3% except lowest 25% of recipients			
13. 3 month COLA delay			
14. ½ index for bendpoints			
15. eliminate children's benefit if parents' income $25,000			
16. increase benefit computation by 3 years			
17. eliminate parents' benefit if child below age 6			
18. cap disability benefits			
19. increase quarters needed for disability			

Please send this form to: Office of Senator Rudy Boschwitz, U.S. Senate, Washington, D.C. 20510

BLANNING & BAKER ASSOCIATES,
Tujunga, Calif., February 16, 1983.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Washington, D.C.

DEAR MR. SALMON: On behalf of literally dozens of public agencies in California, we emphatically and vigorously oppose any legislation to implement the recommendation by the National Commission on Social Security Reform (on page 2-8 of their January report) which would prevent local governments from terminating Social Security coverage.

At present, more than 150 public agencies (cities, counties, and special districts) in California have filed to terminate their Social security coverage effective either December 31, 1983 or December 31, 1984. We are a labor relations consulting firm which has been involved in assisting more than 60 of those agencies in identifying and ultimately implementing alternative benefit packages, and the governing boards and employees of those agencies (which agreed to Social Security coverage on the clear understanding that they would have the option to terminate such coverage in the future) are extremely upset and concerned that they may not now be allowed to do so.

These agencies feel that the reasons for allowing them to withdraw from Social Security (if they so choose) are extremely persuasive. According to the Commission Report (Table A, page 2-5), forcing them to stay in the system will not result in any long-range savings for Social Security—it is a break-even proposition. However, agencies in California which have withdrawn from Social Security have saved anywhere from 2 percent to 5 percent of payroll in doing so. In the wake of Proposition 13 and extremely tight budgets at the state and local levels in California, these agencies are counting on that money to enable them to provide needed services to the public.

There is also, as the Commission Report noted, an almost certain and perhaps valid constitutional challenge regarding whether the Federal Government has the power to compel local governments to pay the employer's share of Social Security.

In summary, our client agencies and their employees are expressing a sense of outrage and betrayal at this Commission recommendation. These agencies only entered Social Security under an agreement that they would be allowed in the future to pull out if they so choose. They have complied with Federal regulations and waiting periods regarding their applications for termination. Now, they are hearing that proposed legislation in Congress may unilaterally violate and negate those agreements for no apparent reasons. Small wonder that these agencies and their employees are feeling double-crossed.

We urge you and the appropriate Congressional Committees to give serious consideration to the views of these numerous agencies. We would be pleased to discuss this with you further or to provide additional substantiating information, and would greatly appreciate being kept informed regarding the progress of implementing legislation. Please feel free to contact me at our Southern California office.

Sincerely,

BRUCE J. BLANNING.

LITTLE ROCK, ARK., *February 11, 1983.*

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee, Longworth House Office Building, Washington, D.C.

DEAR MR. ROSTENKOWSKI: Reference is made to testimony presented to the Ways and Means Subcommittee on Social Security, Tuesday, Feb. 8, 1983. The testimony was in regard to a plan by the National Commission on Social Security Reform to enroll all new federal employees under Social Security. I offer the following comments abo[illegible] testimony:

1. Char[illegible] Morris. The annuity Mr. Morris indicates he is drawing may be excessive un[illegible] Civil Service regulations. Mr. Morris would have a difficult time existing on $395 per month, a level of income below the poverty line, unless he receives SSI or food stamps or both. Indexing retirement pay to the CPI was enacted by a compassionate and wise Congress to prevent federal retirees from encountering financial hardships during the declining years. If Mr. Morris has more money than he needs I'm sure there are charities near him who would be glad to use his surplus to feed, clothe, and house the poor.

2. Sylvester J. Schieber. The claims of unfunded liability seem to be excessive. I began paying into the Retirement Fund in the early 1940's and most of the years since that time I've been a member of the National Federation of Federal Employ-

ees that publishes a news magazine for its members. That magazine often reported to its members that the Federal Government was defaulting on its obligation to pay matching funds into the retirement system. If new federal employees are enrolled under Social Security the result would be a decline in the retirement fund. I believe the long-term note for the unfunded liability, established in 1969, would be called to partly stabilize the fund for those retirees already on the rolls. I refer you to inclosure No. 1, a summary sheet of the retirement fund at the end of 1981. The 1982 report has not been made available.

3. Representative William Archer. The Government, as the employer, is obligated to match dollar for dollar the contributions of the employee into the fund. Because of the unfunded liability and inflation the Government is paying almost $9 billion in interest to the fund each year. This is not the fault of the employee or the retiree as Representative Archer seems to suggest. Again I invite you to review inclosure No. 1.

There have been distorted and false reports, and some instances "horror" stories made and carried by the media on federal retirement pay. I refer you to inclosure No. 3, a summary sheet of employee and survivor annuitants for 1981. The 1982 sheet is not yet available. Please note that the average annuity for the employee is $962 per month and that the average survivor annuity is $419 per month. I simply ask that you review these inclosures carefully and not base any decision on distorted and false statements, as parts of the subject testimony seems to be.

Congress should reject the option of extending Social Security to federal and postal employees. It should seek other solutions that promise long-term cure for the embattled system.

Respectfully,

FLOYD BRUCE.

Enclosures.

1981 Balance Sheet on U.S. Retirement Fund

The following chart was prepared in response to frequent inquiries from NARFE members regarding the Civil Service Retirement System. The outline summarizes the financial operations of the System for fiscal year 1981:

RECEIPTS

I. Employee Contributions from:	
*A. Salary deductions	$ 3,900,967,214
B. Reemployed annuitants	67,335,950
C. Service Credit deposits and redeposit	37,892,218
D. Voluntary contributions	162,525
TOTAL	$4,006,357,907
II. Government Contributions for:	
*A. Agency contributions	$ 3,900,035,215
**B. Postal Service Payments	738,913,000
C. Amortization of pay and benefit liberalizations since 1969	3,296,778,000
***D. Interest on unfunded liability	8,920,000,000
E. Military service credits	1,336,000,000
F. Annuities under special acts	996,000
G. Other income	0
TOTAL	$18,192,722,215
III. Interest and Profit on Investments of Fund	$ 6,330,095,613
Recap of Receipts	
Employees	4,006,357,907
Government	18,192,722,215
Interest	6,330,095,613
TOTAL RECEIPTS	$28,529,175,735

DISBURSEMENTS

I. Payments for:	
A. Retiree annuities	$15,010,343,696
B. Survivor annuities	2,265,013,694
C. Refunds and death claims	457,830,169
D. Transfers to other systems	1,184,269
E. Administrative expenses	44,869,730
TOTAL DISBURSEMENTS	$17,779,241,558

TOTAL RECEIPTS	$28,529,175,735
TOTAL DISBURSEMENTS	17,779,241,558
GAIN IN FUND ASSETS	$10,749,934,177
BALANCE IN FUND AT END OF FY '81	84,437,023,645

* Includes postal service contributions from both employees (I.A.) and employer (II.A.).

** For liability increases in CSRF incurred by Postal Service pay raises since 1969.

*** The unfunded liability results almost exclusively from: 1) Government's failure to meet its obligations to the Fund in the early years, and 2) inflation. Inflation has caused pay raises resulting in higher initial annuities and has triggered cost-of-living increases, both causing the unfunded liability to grow. A 1969 amendment to the CSR Law provided that the Government pay interest on the unfunded liability, beginning at 10 percent in 1971 and reaching 100 percent by 1980. The Board of Actuaries and the Comptroller General of the U.S. have held that present retirement contributions of Federal employees, when compared with contributions of workers in the private sector, should not be increased, but abnormal costs outlined above should be paid by the Government.

Enclosure No. 1

Union Leaders Attack SS Plan

Time to Sacrifice, Pensioner Testifies

Gazette Press Services

WASHINGTON — Union leaders attacked as "dastardly" Tuesday the plan to enlist new federal workers in Social Security, but one retired bureaucrat, who has drawn a quarter-million dollars after paying only $6,600 into a separate program, said it is high time to do so.

Charles L. Morris, 76, told the House Ways and Means Subcommittee on Social Security that his pension has mushroomed from $395 a month to more than $1,400 a month since he retired in 1965 after holding "a succession of obscure jobs" at the Treasury Department.

Morris, who rose from messenger to chief of the Federal Reserve's vault operation during a 42-year career, told the House panel that he discovered last fall he has received $242,000 back after paying in only $6,600. It's time that all Americans make sacrifices to reduce the burgeoning federal deficit, he told the panel, which is considering ways to bail out the ailing Social Security system.

"Federal pensioners, both civilian and military, must shoulder their part of the burden," he said.

'No' to 'Insecurity'

But leaders of postal unions and other federal employe groups said they wanted no part of Social Secu-

(See UNION on Page 8A.)

[illegible] 2/9/83

8A

Union Leaders Attack SS Plan As 'Dastardly'

Continued from Page 1A.

rity, now or in the future. Robert L. White, president of the National Alliance of Postal and Federal Employes, said it would be "dastardly" to force new federal workers into "an alien plan of social insecurity" next year.

The National Commission on Social Security Reform estimates that requiring new federal workers to join beginning in January would raise $12 billion in added payroll taxes by 1990. The unions said it would bring in half that, or less, because of Reagan administration cuts in new federal hiring.

"It's a shell game * * * and the victims are federal and postal employes," Vincent R. Sombrotto, president of the National Association of Letter Carriers, said.

But Sylvester J. Schieber, research director of the Employe Benefit Research Institute, testified that Civil Service retirement programs had an unfunded liability of $530 billion at the end of 1982.

Representative William Archer (Rep., Tex.) said taxpayers already contribute $4.50 for every $1 that federal workers pay toward their pensions. He said the civilian and military pension programs with 4.7 million participants have a combined deficit of $1.2 trillion, compared to $1.6 trillion for Social Security, which has 36 million beneficiaries.

"We cannot continue to have a system that pays a retiree far more than they would make if they were still actively working * * *," Archer said.

Sombrotto acknowledged that, as with the Social Security system, retired postal workers start drawing back more than they paid within 18 to 24 months. But he added, "Everyone that puts money away for retirement puts in much less than they ultimately take out. That's the system * * *. There's nothing wrong with that system."

Enclosure No. 2

Find Yourself in These Updated Figures

Civil Service Employee Annuitants, as of September 30, 1981

Monthly Annuities	Annualized	Total No. of Annuitants	Percent of Total	Cumulative No. of Annuitants	Cumulative Percentage of Total
$ 99 or Less	$ 1,188 or Less	17,676	1.34	17,676	1.3
100 - 149	1,200 - 1,788	23,314	1.76	40,990	3.1
150 - 199	1,800 - 2,388	33,595	2.54	74,585	5.6
Subtotal Less Than $ 200	Less Than $ 2,400	74,585	5.65	74,585	5.6
$ 200 - 299	$ 2,400 - 3,588	51,992	3.94	126,577	9.6
300 - 399	3,600 - 4,788	62,490	4.73	189,067	14.3
400 - 499	4,800 - 5,988	82,872	6.27	271,939	20.6
Subtotal Less Than $ 500	Less Than $ 6,000	271,939	20.58	271,939	20.6
$ 500 - 599	$ 5,000 - 7,188	104,674	7.92	376,613	28.5
600 - 699	7,200 - 8,388	114,380	8.66	490,993	37.2
700 - 799	8,400 - 9,588	107,208	8.11	598,201	45.3
800 - 899	9,600 - 10,788	103,404	7.83	701,605	53.1
900 - 999	10,800 - 11,988	111,546	8.44	813,151	61.5
Subtotal Less Than $1,000	Less Than $12,000	813,151	61.55	813,151	61.5
$1,000 - 1,249	$12,000 - 14,988	195,809	14.82	1,008,960	76.4
1,250 - 1,499	15,000 - 17,988	116,067	8.78	1,125,027	85.2
1,500 - 1,749	18,000 - 20,988	65,917	4.99	1,190,944	90.1
1,750 - 1,999	21,000 - 23,988	43,235	3.27	1,234,179	93.4
2,000 - 2,249	24,000 - 26,988	29,564	2.24	1,263,743	95.6
2,250 - 2,499	27,000 - 29,988	20,520	1.55	1,284,263	97.2
2,500 - 2,749	30,000 - 32,988	14,241	1.08	1,298,504	98.3
2,750 - 2,999	33,000 - 35,988	9,431	.71	1,307,935	99.0
Subtotal Less Than $3,000	Less Than $36,000	1,307,935	99.00	1,307,935	99.0
$3,000 AND OVER	$36,000 and over	13,278	1.00	1,321,213	100.0
GRAND TOTAL		1,321,213	100.00	1,321,213	100.0
AVERAGE EMPLOYEE ANNUITY	$ 962/Month $11,544/Year				

Civil Service Survivor Annuitants, as of September 30, 1981

Monthly Annuities	Annualized	Total No. of Survivor Annuitants	Percent of Total	Cumulative No. of Survivor Annuitants	Cumulative Percentage of Total
$ 99 or Less	$ 1,188 or Less	16,260	3.55	16,260	3.5
100 - 149	1,200 - 1,788	22,788	4.97	39,048	8.5
150 - 199	1,800 - 2,388	41,288	9.01	80,336	17.5
Subtotal Less Than $ 200	Less Than $ 2,400	80,336	17.53	80,336	17.5
$ 200 - 299	$ 2,400 - 3,588	114,905	25.07	195,241	42.6
300 - 399	3,600 - 4,788	74,065	16.16	269,306	58.8
400 - 499	4,800 - 5,988	55,671	12.15	324,977	70.9
Subtotal Less Than $ 500	Less Than $ 6,000	324,977	70.90	324,977	70.9
$ 500 - 599	$ 6,000 - 7,188	43,591	9.51	368,568	80.4
600 - 699	7,200 - 8,388	28,227	6.16	396,795	86.6
700 - 799	8,400 - 9,588	19,457	4.25	416,252	90.8
800 - 899	9,600 - 10,788	12,409	2.71	428,661	93.5
900 - 999	10,800 - 11,988	8,371	1.83	437,032	95.4
Subtotal Less Than $1,000	Less Than $12,000	437,032	95.35	437,032	95.4
$1,000 - 1,249	$12,000 - 14,988	11,310	2.47	448,342	97.8
1,250 - 1,499	15,000 - 17,988	5,548	1.21	453,890	99.0
1,500 - 1,749	18,000 - 20,988	2,428	0.53	456,318	99.6
1,750 - 1,999	21,000 - 23,988	1,205	0.26	457,523	99.8
2,000 - 2,249	24,000 - 26,988	482	0.11	458,005	99.93
2,250 - 2,499	27,000 - 29,988	199	0.04	458,204	99.97
2,500 - 2,749	30,000 - 32,988	74	0.02	458,278	99.989
2,750 - 2,999	33,000 - 35,988	30	0.01	458,308	99.995
Subtotal Less Than $3,000	Less Than $36,000	458,308	99.995	458,308	99.995
$3,000 AND OVER	$36,000 and over	21	0.005	458,329	100.00
GRAND TOTAL		458,329	100.00	458,329	100.00
AVERAGE SURVIVOR ANNUITY	$5,028/Year $ 419/Month				

(The source of these figures is Table B-10, 1981 Federal Fringe Benefits Facts, from the Office of Personnel Management.)

Enclosure No 2

STATEMENT OF MARVIN A. LEVINS, SENIOR VICE PRESIDENT, CONNECTICUT GENERAL LIFE INSURANCE COMPANY, A CIGNA COMPANY

My name is Marvin A. Levins. I am Senior Vice President of CIGNA Corporation and head of its Group Pension Operations. This statement is presented on behalf of CIGNA Corporation, the second largest stock insurance company which was formed last year by the merger of the Connecticut General Corporation and the INA Corporation. CIGNA currently manages over $12 billion in pension assets, has approximately 7000 pension plans in operation and over 1 million covered individuals. As part of our commitment to enhancing the retirement income system, CIGNA Corporation is eager to work constructively with the committee to seek cost effective solutions to the current problems of the Social Security system and to develop other proposals to expand retirement savings to assure every American an adequate post-retirement income.

COMMISSION RECOMMENDATIONS

We support the consensus package of recommendations on the Social Security financing problem that was developed by the National Commission on Social Security Reform and urge that it be enacted promptly by the Congress. This bipartisan solution represents the best possible compromise given the urgency of the Social Security problem and a realistic assessment of the economic and political environment. We recognize that this bipartisan package includes some proposals which may not be consistent with positions we have held as a corporation or principles strongly advocated by others in the business community. However, no single group that has commented to date is totally happy with all the proposals developed by the Commission. Therefore, we believe the Commission's recommendations do, in fact, represent an appropriate compromise.

CLOSING THE BALANCE OF THE LONG-TERM GAP

The consensus recommendations of the Commission would close only two-thirds of the identified long-term gap of 1.8 percent of taxable payroll. CIGNA Corporation supports the recommendation of a majority of Commissioners that the remainder of the long-term fiscal imbalance should be relieved through a gradual increase in the age of first eligibility for full benefits from 65 to 66 beginning after the year 2000. This proposal appropriately recognizes the realities of changing demographics, the greater ability to work of many of our senior citizens and also changing attitudes in the work place.

Currently, 3.2 workers are available to support each beneficiary. Once the "baby boom" generation retires in large numbers, the "best estimate" is that there will be only 2 workers to support each beneficiary. If those projections are modified to reflect continuation of current birth rates as has been done by the Census Bureau, even fewer workers than expected will actually be supporting each beneficiary during the twenty-first century.

In addition, the ability of senior citizens to continue working has increased. We recognize that the demands of certain occupations may continue to make earlier retirement both desirable and necessary in selected instances. Therefore, we do support the proposal of the Commission that special attention be paid to disability coverage provisions for those workers in their early-to-mid-60's. However, the current 65 year old will live longer and will be potentially far more productive than his or her parents. A similar relationship with his or her child's longevity and potential productivity may also hold.

Finally, attitudes toward senior citizens in the workplace have changed. The Appendix contains a recent survey of pension plan sponsors conducted by CIGNA Corporation and the Employee Benefit Research Institute. It shows that most plan sponsors support older workers staying active longer. A majority felt that a legislated increase in the normal retirement age was an appropriate mechanism to achieve this result. In the absence of any cost considerations, most would have preferred using positive incentives, but the survey responses demonstrate to us that increasing the normal retirement age is a positive and realistic approach to the long-term Social Security financing problem.

The Commission also examined, but did not include as a specific long-term solution, procedures to gradually reduce the initial benefit levels to be paid to future retirees. One means of achieving this would be through a modification of the bend points. We urge the Committee to keep this in mind as it seeks solutions to those areas not specifically addressed in the Commission's consensus report. It is critical that the Congress assure the public that under such a proposal future benefit levels will still grow as national productivity increases. The temporary bend point modification studied by the Commission would still permit future benefits to grow in terms of purchasing power, but at a more moderate and affordable rate. Such a change would restore the level of benefits approximately to the level which existed in 1972 before faulty indexing procedures unintentionally caused benefit levels to explode. Thus, the bend point modification could be viewed as an equity measure to complete the correction of those faulty indexing provisions.

FAIL-SAFE MECHANISM

The National Commission also agreed that there was a need for, but did not specify, a fail-safe mechanism to guard against adverse economic conditions developing without adequate notice. We agree that such a mechanism is necessary in addition to the other changes recommended in the compromise plan. Even with those changes there can be no certainty that further financial problems will be avoided because of the extremely modest trust fund margins now available.

The Commission identified three basic fail-safe mechanisms which could be adopted singly or in some combination: (1) Modification of future cost of living adjustments: (2) increases in payroll taxes beyond those originally scheduled; or (3) temporary or permanent transfers from the general treasury or other dedicated taxes. We strongly urge the Congress to enact a fail-safe mechanism of the first type, i.e., a modification of future cost of living adjustments as necessary to preserve the long-term financial viability of the Social Security system.

In the event a fail-safe mechanism was acutally needed, the most likely cause of the financial problem of Social Security would be unexpected adverse economic conditions. In such a situation, working age Americans would be suffering from significant economic deterioration. We believe that an equitable sharing of burdens in such a national economic crisis would require that Social Security beneficiaries give up, prospectively and for as long as necessary, the additions to their retirement benefits which would have to be paid for from a shrinking economic pie available to all Americans. If Congress desired, those at the lowest income levels could be protected in some manner as was recommended under the Commission's plan with respect to increasing the SSI disregard from $20 to $50 to insulate beneficiaries from the effects of the 6-month delay in the 1983 COLA.

This proposal is responsible because it preserves a self-financing integrity of the Social Security system, and avoids the use of general revenues. The use of general revenues as a fail-safe mechanism would weaken confidence in the Social Security system and ultimately could lead to a needs-tested program. Should it be necessary to implement a fail-safe mechanism, the use of general revenues would also increase deficits in the remainder of the federal government. This could have a disastrous effect on inflation and the economy when we would need to encourage economic recovery.

We would also like to comment on a number of other issues not specifically addressed by the Commission but which we feel are important for the committee to keep in mind as it develops legislation in this area.

MEDICARE PROBLEM

The National Commission on Social Security Reform chose not to address the financing problems of the Medicare program directly in their deliberation. We concur with the wisdom of that decision. However, we also urge the Committee not to ignore the fact that the costs of solutions to those problems will have to be added to those legislated for OASDI.

CIGNA supports the efforts of this Committee, the Congress and the Administration to develop prospective payment systems, because these programs are an effective way to contain hospital cost while maintaining the quality of care. However, we believe that the proposal of the Department of Health and Human Services will not accomplish its cost containment objectives because it applies only to Medicare beneficiaries. A hospital payment system must apply to all patients so that hospitals face consistent incentives from all those who pay for care. A Medicare-only system encourages cost accounting manipulations rather than the development of an integrated cost containment strategy. As a result, it creates incentives to shift costs rather than to provide cost efficient care.

CIGNA also believes that the Congress should encourage the development of state-level prospective payment systems. This approach affords experimentation with innovative solutions to a complex problem and permits solutions to recognize regional differences in economics, hospitals, and medical practices. Furthermore, existing state programs have clearly demonstrated that they can reduce the rate of growth in hospital expenditures for all patients, including Medicare, while maintaining the quality of care.

RETIREMENT POLICY

Social Security is vital as the basic retirement plan available to all working Americans and their families. However, Congress must keep in mind that Social Security is only one of the three components of the national retirement income system, which also includes private pensions and private savings. The Tax Equity & Fiscal Responsibility Act of 1982 (TEFRA) has resulted in major changes to the private pension component which would weaken the system and cause termination of a number of plans. We believe that those changes could have serious long-term adverse effects on the retirement security of many Americans. We strongly urge that the Committee allow employers and working age Americans time to absorb these changes and reorient their retirement planning as necessary to accommodate TEFRA's changes.

In this year of serious efforts at federal deficit reductions and economic recovery, we also urge Congress to resist the temptation to look at the retirement income system for budget-motivated savings. We believe that the time has come to declare a moratorium on assaults against retirement savings and to allow the system time to adjust both administratively and financially. At the same time, we have already identified the need for additional private savings to bolster retirement income and to speed up the capital formation which is so vital to restoring America's competitiveness in world markets. The private pension system is one of the most reliable means of achieving this objective. We urge the Committee to take positive steps in this direction.

CONCLUSION

In summary, we endorse the proposals of the National Commission on Social Security Reform and hope that the Congress will legislate solutions to close the remaining part of the long-term gap as recommended by a majority of Commission members and supported by CIGNA Corporation. We also observe that even if the Commission's recommendations are enacted, we still need to address the serious financial problems facing Medicare. Finally, we strongly urge the Congress to turn its attention to positive means of increasing retirement savings and resisting the temptation to look to the pension system for an infusion of funds to help reduce the anticipated fiscal 1984 federal deficit.

We believe that actions taken by Congress to solve Social Security's current financial crisis will be an important signal of our national resolve to face the serious questions which must be addressed if our economy is to recover fully. A failure by Congress to enact the present recommendations will have serious implications for the viability of the Social Security program and for the nation's overall fiscal integrity as well.

Thank you for the opportunity to present our views on preserving Social Security. We look forward to working constructively with this Committee and the Congress on this and other critical issues affecting our nation's economic recovery.

APPENDIX

EBRI

Attitudes Towards Raising Social Security's Normal Retirement Age — A Survey of Connecticut General Pension Plan Clients

by
David Scheinerman*
EBRI Fellow

EMPLOYEE BENEFIT RESEARCH INSTITUTE

Attitudes Towards Raising Social Security's Normal Retirement Age — A Survey of Connecticut General Pension Plan Clients

by
David Scheinerman*
EBRI Fellow
Sponsored by
Connecticut General Life Insurance Company,
A Company of CIGNA

August 27, 1982

The views presented here are those of the author and do not necessarily reflect the views of the Employee Benefit Research Institute, its Trustee, members, staff, or Connecticut General, its officers or staff.

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EXECUTIVE SUMMARY

The recommendation to raise the normal retirement age (NRA) under Social Security is receiving serious consideration in Washington. The impact of such a change in Social Security on private pension plans must be factored into the formulation of public policy. Also, an assessment of private plan sponsors' attitudes toward and anticipated responses to raising the NRA under Social Security is important because their actions could neutralize the effect of Social Security changes on the elderly's work decisions.

This study of a sample of Connecticut General defined benefit group pension plan clients found that 72 percent of the plan sponsors contacted favor encouraging the older worker to remain in the labor force. With 69 percent of the plans now recognizing post-NRA employment for pension accrual, it is evident that these plans already have in-force incentives for older employees to continue working. 48 percent of the plan sponsors surveyed think raising the NRA under Social Security would be a good way to encourage the older worker to remain in the labor force.

Raising the retirement age under Social Security reduces benefits by shortening the period of time over which benefits are paid to an individual retiree. Seventy percent of the respondents prefer raising the NRA to reduce Social Security benefits instead of cutting the general level of payments across-the-board. Seventy-seven percent, though, think other financial incentives would be preferable to raising the NRA.

Three-quarters of the respondents do not think raising the NRA in the late 1990's or early 2000's would cause their business particular problems. Respondents are basically split between making no changes in their pension plan's design in response to a raise in the NRA under Social Security and raising their plan's NRA to correspond with Social Security's NRA. The fact that many plans are now designed to give flexibility in retirement ages by giving credit for post-NRA employment may mean that pension plan sponsors could accommodate changes in the NRA without major plan redesign.

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I. INTRODUCTION

This paper presents the findings of a survey of 107 Connecticut General defined benefit group pension clients. The survey investigates their attitudes towards increasing the normal retirement age (NRA) under Social Security and their anticipated response to such an increase through changes in the design of their pension plans. Although there has been much discussion about raising the NRA under Social Security, there has been little research on how pension plan sponsors view such a change. While the responses of Connecticut General's clients may not be fully representative of the overall population of pension plan sponsors, policy implications and conclusions can be drawn from the data.

The retirement decision is based on many factors, especially the financial consequences of such a move. Commonly considered the first tier of resources for retirement, Social Security benefits play a significant role in determining retirement behavior patterns. Because private retirement plans tend to design their provisions around the NRA under Social Security, any change in this NRA will affect private pension plan benefits. Understanding plan sponsors' reactions to raising the Social Security NRA should help determine the extent to which plan sponsors might counteract or neutralize Social Security actions by maintaining early retirement incentives. In light of both the attention given in the political forum to this proposal and the interdependence of private pensions and Social Security, the effects on private pensions need consideration in forming Social Security retirement age policy.

This study considers the employers' perspective on encouraging the older worker to remain in the workforce without discussing the Social Security costs and tradeoffs of any such policy decision. However, it is primarily the long-term financial imbalance currently projected for Social Security which brings this issue into the political forum. A summary of background information on Social Security's NRA and the major demographic factors affecting Social Security's financial future is presented in Chapter II. A description of the methodology of the research and the characteristics of the client firms surveyed is contained in Chapters III and VII. The results, analysis, and implications of the survey are discussed in Chapters IV through VI.

II. SOCIAL SECURITY BACKGROUND

Changes in the demographic composition of the United States population resulting from changes in fertility, life expectancy, and social behavior have contributed to the serious financial outlook of the Social Security system. The favorable financial consequences of raising the NRA have focused substantial attention on this Social Security reform proposal. The analysis of these factors in the background information which follows provides the framework for considering the results of the survey of pension plan sponsor attitudes toward raising Social Security's NRA.

RETIREMENT AGE

Selection of the Original Retirement Age -- The founders of the Social Security system in 1935 established a NRA of 65 principally by feel:

> "The original selection of age 65 as the minimum retirement age for insured workers was, to a considerable extent, arbitrary and empirical. Age 70 seemed too far advanced... although many private pension plans...had such a minimum age in the mid-1930's. On the other hand, age 60 was too low an age both in view of general employment practices and costs. Accordingly, the compromise 'even quinquennial' age of 65 was selected." (1)

Actuarial or gerontological reasons do not seem to have been a major consideration in the original NRA selection. Retirement benefits were not available prior to age 65 in the original design of the Social Security System.

Change in Retirement Age -- In 1956, the retirement age for women under Social Security was lowered to make reduced benefits available at age 62; the primary reason for this change was that the average age of wives was three years less than their husbands. In 1961, men were also allowed to collect Social Security benefits at age 62 to reduce short-run unemployment.

CHANGING DEMOGRAPHICS AND IMPLICATIONS

Because Social Security is a pay-as-you-go system, its financial health is directly related to the number of workers in the labor force relative to the beneficiary population. Several factors have been causing the number of workers relative to the number of beneficiaries to drop. This has added to the system's serious financial outlook and led to the consideration of changing the NRA.

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(1) Robert Myers, Social Security, (1981), p. 191.

Fertility -- During the baby boom of the 1950's, the birth rate peaked at 3.7 births per woman. A current projection is that fertility rates will stabilize at approximately 2.1 births per woman; the 1977 rate was 1.8 births per woman. Because of the nation's return to historical fertility levels, the baby boom population will create difficulties as the nation's labor market and the Social Security system are asked to accommodate the boom-bust cycle.

Life Expectancies -- The Social Security Administration actuaries and Census Bureau demographers project a steady but slow decline in mortality rates over the next 70 years. (2) Life expectancy among males is projected to increase from 69.1 years in 1978 to 74.6 years in 2040; for females, the projected increase during this interval is from 77.0 to 83.3 years. (3) These projections are consistent with the overall life expectancy rates of the past.

Table I

Life Expectancy By Sex, Race, and Age

	White		Black and Other		Overall		
	Male	Female	Male	Female	Birth	65 Years	75 Years
1900-02	48.2	51.1	32.5	35.0	49.2	11.9	7.1
1939-41	62.1	66.6	51.5	54.8	63.6	12.8	7.6
1965	67.6	74.7	61.1	67.4	69.5	14.2	8.7
1976	69.7	77.3	64.1	72.6	72.8	16.0	10.7

Source: Life table published by the National Center for Health Statistics. Reprinted in Current Population Report U.S. Bureau of Census, Special Studies Series p. 23, No. 59 May 1976 and Statistical Abstract of the United States 1981.

Increases in life expectancy have been greater than past forecasts have projected. For example, Census Bureau projections issued in 1977 include a forecast of greater longevity than the projections issued in 1975. As a result, Social Security may face even longer retirement benefit payment periods than expected today. This could make a bad financial situation worse.

Changing Social Behavior -- The ratio of beneficiaries to contributors in retirement programs is affected by both entry into and exit of workers from the labor force. Current trends show that entry into the labor force is occurring at later ages primarily due to increased participation in education. As older workers retire earlier, the Social

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(2) U.S. Social Security Administration, 1977; U.S. Bureau of the Census, 1977.

(3) U.S. Population Projections for OASDI Cost Estimates (1980), Social Security Administration - Office of the Actuary, p. 35.

Security system faces increasing overall costs of benefits and decreasing payroll tax revenue. The combination of later entry into and earlier exit from the labor force aggrevates the financial crunch of Social Security. Table II illustrates past and projected older worker labor force participation.

Table II

Labor Force Participation Rates-
Workers 60 and Over

	1960	1970	1980 (1) Est.	1990 Projected
60 and 64:				
Male	81.1	75.0	63.0	57.2
Female	31.4	36.1	33.4	33.4
65-69:				
Male	46.8	41.6	29.9	26.1
Female	17.6	17.3	14.4	13.9
70 and Over:				
Male	24.4	17.7	12.9	10.3
Female	6.8	5.7	4.4	4.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, Vol. 22, No. 7, January 1976.

(1) 1980 actual rates for males 65 and over, 19.6 percent; for females 65 and over, 8.3 percent. Actual 1980 data is not disaggregated for age 65-69 and age 70 and over.

LONG TERM PROSPECTS FOR SOCIAL SECURITY

Increasing longevity, a return to historical fertility rates, and the aging of those born in the baby boom will cause a major shift in the demographic composition of the United States population by the end of the century. Projections indicate that by the year 2030, 22 percent of the U.S. population will be age 65 or over, compared with 11 percent today. This will place an extreme strain on future workers and their employers who support the Social Security system's beneficiaries through their payroll taxes. Today each beneficiary depends on about three active workers for Social Security benefits. By the year 2025, the ratio is expected to drop -- one beneficiary will depend on only two active workers. The situation seems clear: the Social Security system will be financially strained; policymakers must consider alternatives to make it financially sound.

RAISING THE NORMAL RETIREMENT AGE

One option to balance Social Security financially, considered by many governmental organizations and commissions, is raising the NRA. A variety of ways have been recommended, each proposal suggesting different years for the change to start, the number of years to phase-in the increase, and the final NRA to reach. For example, in the final report of the National Commission on Social Security, the Commission recommended that "as the earliest age for full retirement benefits is increased from 65 to 68, the age at which reduced benefits are first available should be raised from 62 to 65. These changes should be made gradually, beginning at the turn of the century, by raising the ages over a 12-year period..." (4) The President's Commission on Pension Policy recommended that the NRA be raised from 65 to 68 with the age for reduced benefit raised from 62 to 65; their recommendation proposed phasing in the increase between 1980 and 1992. In addition, the 1979 Advisory Council on Social Security proposed raising the NRA to age 68 starting the phase-in after the year 2000.

The savings from these proposals are significant; although they would revive the long-term financial viability of the Social Security system, policymakers must consider the tangential consequences of changing the NRA.

This paper addresses this change from the perspective of pension plan sponsors to determine their views and the implications for public policy.

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(4) Final Report of the National Commission on Social Security, March 1981, p. 122.

III. A STUDY OF CONNECTICUT GENERAL PENSION PLANS

As background for analyzing the results of this survey, a brief description of the research methodology follows. Also reported are characteristics of the respondent sample including information about the firms, their pension plans, and the plan sponsors contacted. Late retirement provisions of the sample firms are summarized in this section in order to determine the extent of current incentives for older workers to continue working.

METHOD

The sample of Connecticut General's group pension defined benefit plan clients was randomly selected from a group of plans stratified by size. Only those clients whose primary pension plans are defined benefit plans were included in the sample since changes in the NRA would most affect their plan designs.

In June and July of 1982, the clients were mailed a cover letter explaining the purpose of the project and the proposal to change the NRA, background information on Social Security, and a copy of a questionnaire. Approximately one week later, these clients were contacted for a telephone interview based upon the questionnaire. A total of 107 client responses comprise the final data sample - a response rate of 90 percent. The calculation of the response rate as well as other aspects of the method used are discussed in the Appendix.

CHARACTERISTICS OF THE SURVEYED FIRMS

The contacted representatives of firms from all over the country are, for the most part, administrators of their primary pension plans. The representatives consist of benefit managers, trustees, presidents, treasurers, and other high level management personnel. These managers' ages range from 24 to 76. Their responses to the survey combine their own views and those of their companies. An industry profile of the respondents is presented in Table III.

Table III

Profile of Firms Surveyed by Business Category

Construction/Manufacturing/Mining	53
Non-Profit (includes health care)*	12
Service Industries (includes communications, transportation, retailing, wholesaling, distributing, and financial institutions)	42
Total	107

*Although some non-profit firms do not have to participate in Social Security, all of these respondents have elected to do so.

Ninety-six percent of the plans have a NRA of 65; the other four percent have lower retirement ages to accommodate the need for earlier retirement because their workers are employed in stressful or heavy physical jobs. Sixty percent of the plans cover all classes of employees within the firm if they meet ERISA's hours, age, and service requirements. Roughly half the firms have more than o ension plan; about one-third have at least one defined contribution p .

LATE RETIREMENT PLAN CHARACTERISTICS

While the survey primarily addresses attitudes towards the Social Security issue, the questionnaire also provides information on the plans' late retirement provisions. Seventy-nine percent of the surveyed firms do not pay pension benefits while an employee continues to work past NRA (5). Sixty-nine percent do give credit for service worked beyond NRA. This shows an already in-force incentive for older employees to continue working. At the same time, 21 percent of the plans surveyed neither give credit for service worked beyond 65 nor allow the employee to collect his/her pension between 65 and 68 or 70 if they continue in their employ; the participants of these plans would seemingly be hurt the most from an increase in the Social Security NRA if there were no compensating changes in their private plans.

The surveyed plans which are collectively bargained are less likely to allow workers to draw their pension while working past NRA as shown in Table IV. Also, collectively bargained plans are more likely to give credit for service past NRA.

Table IV

Comparison of Late Retirement Provisions for Surveyed Bargained and Non-Bargained Plans

	Bargained		Non-Bargained
Allow collection of pension while working past NRA?	Yes:	8%	24%
	No:	92%	74%
	No Answer:	0%	2%
Give credit for service past NRA?	Yes:	76%	67%
	No:	20%	33%
	No Answer:	4%	0%
Total number of responses		25	82

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(5) A. William Mercer Study of Employer Attitudes in 1981 reports that 86 percent of the CEO's of 552 large industrial and service companies surveyed did not permit employees over NRA to begin receiving their pension while continuing in employment.

IV. ATTITUDES OF PENSION PLAN SPONSORS TOWARD INCREASING SOCIAL SECURITY'S NRA

This section analyzes plan sponsor attitudes towards increasing the normal retirement age under Social Security as a way to encourage older worker participation in the labor force. Also presented are respondent views on using alternative incentives to encourage older workers to remain in the labor force and on reducing Social Security benefits across-the-board instead of raising the NRA. The question of continued availability of early retirement benefits under Social Security if the NRA is raised is considered in this section.

ENCOURAGING PROLONGED WORK

Nearly three-quarters of the respondents favor encouraging the older worker to remain in the labor force. The responses from different industry categories are not very different (Table V). While there seems to be much more support from the non-profit firms for encouraging the older worker to remain in the labor force, the small size of the non-profit subsample prevents the determination of a true statistical difference. The collectively bargained plans seem to have similar views toward encouraging prolonged work as the non-bargained plans.

Table V

Attitudes of Surveyed Clients Towards Encouraging Prolonged Work

	Favor Encouraging Prolonged Work	Oppose Encouraging Prolonged Work	Total Number of Responses
Total Sample	72%	28%	107
Construction/Manufacturing/ Mining Sector	68%	32%	53
Non-Profit Sector	92%	8%	12
Other Service Sector	71%	29%	42
Bargained Plans	68%	32%	25
Non-Bargained Plans	73%	27%	82

The minority who opposed encouraging the older worker to remain in the work force generally see the decision as purely the employee's; also, some respondents think work at older ages should be discouraged either because employees should "not work until they die" or because such employees may be less productive and more costly. Nevertheless, respondents do, in general, favor encouraging the older worker to remain in the labor force.

INCREASING SOCIAL SECURITY NORMAL RETIREMENT AGE

Do the respondents view raising Social Security's NRA as a good way to encourage the older worker to remain in the labor force? Their views are divided rather evenly on this issue. The aggregate views of clients toward increasing the NRA and several subcategorizations of the responses are presented in Table VI. Almost one-half of all respondents favor raising NRA as a good way of encouraging continued labor force participation.

Table VI

Views Toward Raising the NRA - Aggregated and Subcategorized

	Favor Raising NRA	Do Not Favor Raising NRA	No Answer	Total Number of Responses
Total Sample	48%	51%	1%	107
Construction/Mining/ Manufacturing Sector	47%	51%	2%	53
Non Profit Sector	42%	58%	0%	12
Other Services Sector	50%	50%	0%	42
Those Favoring Encouraging Older Worker to Remain in Labor Force	54%	45%	1%	77
Those Opposing Encouraging Older Worker to Remain in Labor Force	33%	67%	0%	30

Of those clients who express agreement with raising the NRA under Social Security, the breakdown of when and how to phase it in is summarized in Table VII.

Table VII

Breakdown of Views on How to Raise the NRA for the 48% of the Clients who Favor Such a Change

		To what age would you raise Social Security's NRA?			
		68	70	Other	Total
What period would you phase it in over?	1990-2000	53%	10%	2%	65%
	2000-2012	10%	4%	0%	14%
	Other	6%	15%	0%	21%
	Total	69%	29%	2%	100%

The clear majority of those favoring raising the NRA view 68 as preferable. Also, the vast majority of those favoring raising the NRA would like to see the change start in 1990 or earlier. (6)

MAKING ALTERNATIVE ADJUSTMENTS

Forty-five percent of those respondents who favor encouraging the older worker to remain in the labor force think that raising Social Security's NRA would not be a good way to accomplish that objective. Many respondents support a variety of other alternative adjustments to Social Security. In fact, 77 percent of the respondents view other inducements as preferable to encourage the older worker to remain in the labor force instead of changing the NRA for Social Security; 20 percent, though, do not think other alternatives are preferable. Table VIII shows the preferential alternatives supported.

Table VIII

Alternatives Favored by the 77% of Clients Preferring Adjustments Other Than Raising the NRA of Social Security

	1st choice	2nd choice
Increase the reduction in Social Security benefits when one retires early	12%	12%
Provide greater benefit increases under Social Security for those who work beyond age 65	44%	15%
Eliminate the retirement income test	26%	26%
Eliminate mandatory retirement age	12%	18%
Other	5%	2%

Respondents seem to view other incentives to encourage the older worker to remain in the labor force as preferable to raising the NRA. Since the cost tradeoffs involved were not presented to the clients, it is not surprising that providing greater benefit increases for post-65 retirement and eliminating the retirement income test have the most support. If the cost of these options were illustrated and companies or individuals made to pay the expenses, these choices might not be as popular. Nevertheless, those respondents who are concerned about employees being "forced" to work if the NRA is raised, find appeal to the concept of using incentives to encourage later retirement. (7)

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(6) The respondents choosing "other" as the period over which they would phase the increase in the NRA specified either starting "as soon as possible" or in 1985.

(7) Some of the concern expressed by employers about "forcing" older workers to work may have been derived from the questionnaire's not addressing the issue and role of disability insurance; disability claimants would probably increase with a rise in the NRA.

REDUCING BENEFITS INSTEAD

Respondents were asked to consider the alternative of a general cut in Social Security benefits as a way to reduce benefits instead of raising the NRA to shorten the period of time over which the benefits are paid. An across-the-board reduction in Social Security benefits instead of raising the Social Security's NRA is opposed by 70% of the respondents. This illustrates the political difficulty of an outright lowering of benefits as well as the potential support for raising the retirement age to cut Social Security costs. Responses subcategorized by size of firm, age of respondent, and whether or not the pension plan is integrated with Social Security are summarized in Table IX.

Table IX

Client Views on Across-the-Board Reductions in Benefits Instead of Raising the NRA

	Across-the-Board Reduction Instead			Total Number of Responses
	Favor	Oppose	No Answer	
Total Sample	25%	70%	5%	107
1-50 Employees in Firm	43%	57%	0%	23
51-100 Employees in Firm	16%	84%	0%	19
101-250 Employees in Firm	24%	67%	9%	21
251-500 Employees in Firm	25%	70%	5%	20
501 + Employees in Firm	17%	71%	12%	24
Respondents Age 50 and Over	14%	78%	8%	49
Respondents Under Age 50	33%	66%	1%	58
Plans Integrated with Social Security	28%	66%	6%	50
Plans Not Integrated with Social Security	23%	73%	4%	57

The smaller firms may favor an across-the-board reduction in benefits to a larger extent perhaps because they feel the effects of the payroll tax to a higher degree. The smaller firms' respondents were more often the owners of the firm as compared to the larger firms where the benefits administrators were often the respondents; their differing perceptions of the system's cost may cause some of the deviation in views.

Not surprisingly, those clients age 50 and over view an across-the-board reduction in benefits as less favorable than an increase in the NRA. Their personal proximity to retirement could easily influence their view of such an altenative.

The plans whose benefits are integrated with Social Security would experience higher plan costs if the Social Security retirement benefit is reduced across-the-board. (8) Because these plans would experience higher direct costs, it is surprising that a higher percentage of integrated plan respondents view an across-the-board reduction in benefits as desirable.

Availability of Early Retirement Social Security Benefits -- 91 percent of the respondents favor continuing the availability of reduced early Social Security retirement benefits if the NRA is raised. In fact, all 25 respondents representing firms whose primary plans are collectively bargained support early retirement benefits under Social Security. These views correspond to respondent comments advocating flexibility in individual employee retirement decision choices while maintaining incentives to continue working.

Almost two-thirds of the clients favoring availability of early Social Security benefits also favor maintaining availability starting at age 62; 33 percent favor starting at age 65. Moreover, for those respondents supporting these early benefits, 85 percent favor providing them on a basis which is actuarially equivalent to a benefit claimed at NRA; only 13 percent favor a subsidized basis for calculating the early benefits. These results show the support for maintaining early retirement benefits while at the same time encouraging the older worker to stay in the labor force.

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(8) There is reason to suspect that some respondents who have step-rate integrated pension plans responded that their plan is not integrated with Social Security because the actual calculation of their benefits are not explicitly related to Social Security benefits.

V. ANTICIPATED EFFECTS OF CHANGES IN THE NRA ON EMPLOYERS

This section analyzes respondents' perspectives on the potential effects of an increase in the NRA under Social Security with respect to anticipated business problems and pension plan design changes. The analysis leads to conclusions as to the ease with which private plans and firms could accommodate to such a change in Social Security.

POTENTIAL BUSINESS PROBLEMS

Asked to consider the effect of an increase in the NRA under Social Security in the late 1990's or early 2000's, nearly three-quarters of the surveyed clients think the change would cause no particular business problems. The responses are not very different between firms from the various industry segments (Chapter X). Raising the NRA does seem to cause more problems for companies with collectively bargained plans.

Table X
Percentages Anticipating Business Problems

	Problems	No Problems	No Answer	Number of Respondents
Total Sample	25%	73%	2%	107
Construction/Manufacturing/ Mining Firms	26%	70%	4%	53
Non-Profit Firms	33%	67%	0%	12
Other Services Firms	21%	79%	0%	42
Collectively Bargained Plans	32%	64%	4%	25
Non-Bargained Plans	23%	76%	1%	82
Respondents Favoring Encouraging Older Worker to Work	21%	78%	1%	77
Respondents Opposing Encouraging Older Worker to Work	37%	60%	3%	30
1 - 50 Employees in Firm	17%	78%	5%	23
51 - 100 Employees in Firm	16%	79%	5%	19
100 - 250 Employees in Firm	33%	67%	0%	21
251 - 500 Employees in Firm	25%	75%	0%	20
500 + Employees in Firm	33%	67%	0%	24

Because only 25 percent of the respondents believe raising the NRA would cause their business particular problems while 50 percent of the firms are against raising the NRA, it is clear that other factors besides business problems influence the respondent's views. Consequently, policymakers should take into account the fact that business does not look only at the problems changing the NRA would cause when forming their views about the proposal.

POTENTIAL RESPONSES IN PLAN DESIGN

The respondents were asked what action they would take regarding their corporate retirement plan if the NRA under Social Security were raised to 68 in the very near future. (9) Their responses are summarized in Table XI.

Table XI

Probable Plan Responses to Increasing the NRA

Make no changes	51%
Raise the NRA under the private plan to coincide with the Social Security NRA	38%
Retain present NRA and increase private plan benefits to make up for the cut in Social Security benefits available at that age	7%
Other	4%

Those respondents who do not want to encourage the older worker to remain in the labor force are very reluctant to make any changes in their pension plans (Table XII). By not making changes, an earlier retirement incentive is maintained and the Social Security influence is offset to a large degree. Alternatively, those respondents who are in favor of encouraging the older worker to remain in the labor force have a greater likelihood of raising their NRA to correspond with an increase in Social Security's NRA.

Respondents whose plans are integrated with Social Security would probably experience more direct effects from any changes in Social Security provisions. Because the benefit level of Social Security can directly or indirectly affect the costs and benefits of the private pension plan without making any adjustments to the plan, the reactions of integrated plans are examined separately. Integrated plans seem more responsive to changes in Social Security as they design their employees' overall retirement income package (Table XII).

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(9) In response to this question (#13, see Appendix) of the survey, respondents interpreted (a) and (c) of the question as equivalent. Choice (c), "freeze benefit at 65," was intended for those respondents who might maintain their age 65 benefit and keep it frozen if one retired later. Most respondents already have benefits which increase upon late retirement making this choice not applicable. As a result of the identical interpretation of choices (a) and (c), these responses are aggregated and considered as "make no changes" responses.

Table XII

Pension Plan Design Changes in Response to Raising Social Security's NRA

	Make No Changes	Raise Own NRA	Up Difference	Other	Number of Respondents
Those Favoring Encouraging Older Workers to Remain In the Work Force	39%	48%	8%	5%	77
Those Opposing Encouraging Older Workers to Remain In the Work Force	83%	13%	4%	0%	30
Plans Claiming Integration with Social Security	38%	50%	10%	2%	50
Plans Not Integrated with Social Security	63%	29%	3%	5%	57
Plans Giving Credit for Service Beyond NRA	53%	35%	8%	4%	74
Plans Not Giving Credit for Post-NRA Service	50%	44%	3%	3%	32

The plans which currently give credit for service beyond NRA are already set up to adjust automatically for later retirements. The respondents to the survey whose firms do credit post-NRA service do seem less likely to raise their NRA -- perhaps because the plans can already adapt to later retirement dates. It is probable, though, that the employees of these firms would be less severely affected if their plan did not change than the employees of firms whose benefits freeze at age 65.

Few respondents in the sample anticipate that their plan would make up the difference for benefits cut back by changes in the Social Security system. Many respondents did comment that any action they would take to change their plan would, of course, take into consideration the dollar cost involved. Policymakers should not expect uniform private pension plan action in response to raising the NRA.

Raising the NRA under Social Security would encourage the continued employment of older workers that a majority of plans already support. At the same time, private plans will not generally reinforce or add to the effect of Social Security's raising of the NRA; by making no changes, a large percentage of firms may partially offset the impact of Social Security.

VI. IMPLICATIONS

Plan sponsors do want to encourage older workers to remain in the work force. Many private plans already do this by providing post-65 benefit accruals. As a result, policymakers should consider following suit by encouraging the older worker to remain in the labor force by raising Social Security's NRA. Most plan sponsors would not have to make corresponding changes in their plans to reinforce such a change in Social Security since most already provide post-65 accruals or increased benefits.

The trend toward earlier retirement has been growing. Although it can be argued that pension plan provisions and Social Security may encourage earlier retirement, health may also be a contributing factor. Public policymakers need to be concerned about whether disability payments would increase if the NRA under Social Security was raised.

This survey showed that pension plan sponsors were divided on whether raising the NRA under Social Security was a good way to encourage older workers to remain in the labor force. The questions posed addressed this issue from a non-cost view point. A study analyzing plan sponsor views when presented with the cost tradeoffs involved could develop a better understanding of their priorities.

The concept of using other incentives to continue working appealed particularly to those respondents who were concerned that raising the NRA would "force" employees to work. These respondents seem to view incentives as allowing more individual choice regarding the retirement decision. If the Social Security system developed substantial incentives for working past NRA, the public policy objective of raising the average retirement age might be achieved while, at the same time, preserving more latitude for individual retirement decisions. Such incentives, however, would raise costs unless existing benefits were cut; yet respondents to this survey prefer raising the normal retirement age rather than reducing benefits across-the-board.

The division of employer views on changing the NRA under Social Security suggests the need for a carefully timed approach to making any changes. Because uniform legislation changing the NRA for all workers will hit different firms and industries with varying degrees of severity, any proposal should allow needed adaptation time. On the other hand, the survey shows that even though half of the respondents were not in favor of raising the normal retirement age under Social Security, three quarters of them did not think that doing so would cause their business problems.

VII. APPENDIX

DETAILS ON THE METHODOLOGY OF THE SURVEY

The questionnaire was pretested with one dozen clients. 127 clients were mailed the final survey. Twelve clients declined to respond. Eight clients were excluded from the sample; four because they could not respond in time and four because their primary plans are defined contribution plans. This yielded a total of 107 responses out of 119 clients sampled - a response rate of 90 percent.

During the telephone interviews, the questions on the survey were discussed in order with one exception. Questions 16 and 17 were considered between questions 11 and 12; this was done to improve the logical sequence of discussion. Missing information about late retirement plan provisions and Social Security integration was filled in through study of the individual plans.

A breakdown of the firms interviewed shows a relatively even distribution of firms among employees size brackets.

Table XIII

Sample Breakdown by Employee Size Bracket

Size Class (Number of Employees)	Number of Firms Contacted		Approximate Proportion of CG Client Base
5 - 50	23	(21.5%)	40%
51 - 100	19	(17.8%)	20%
101 - 250	21	(19.6%)	20%
251 - 500	20	(18.7%)	10%
501 and up	24	(22.4%)	10%
Total	107	(100.0%)	100%

As can be seen from Table XIII, the sample is underweighted at the small end by plan count. At the same time, it is underweighted at the large end by employee count. As a result, the aggregate results (percentages reported) represent different size proportions than the relevant universe yet, for the most part, are not affected much by reweighting procedures used to adjust the data. In this report, all results have been presented on an unweighted basis with the display of any trends where they exist.

QUESTIONNAIRE

A. YOUR PRESENT PENSION PLAN(S)

1. What kind of pension plan(s) do you now provide for your workers. (CHECK ALL THAT APPLY)

	How many?
( ) Defined Benefit Plan	______
( ) Defined Contribution Plan	______
( ) Profit Sharing Plans	______
( ) Money-purchase Pension Plans	______
( ) Stock-bonus plan, employee stock ownership plan (ESOP), tax reform act stock-ownership plan (TRASOP)	______
( ) Thrift Plan	______
( ) Other (Please Specify) ______________	______

2. Your Primary Plan is usually the one that has been in existence for the longest period of time and/or covers the majority of your employees. If your firm has more than one pension plan, which of those checked above is your primary plan? (PLEASE SPECIFY) ______________________________

   Is the plan contributory? ( ) Yes ( ) No

FOR THE REMAINING QUESTIONS WE WANT YOU TO CONSIDER THE BASIC PRIMARY PLAN THAT YOU HAVE SET UP FOR YOUR EMPLOYEES.

3. Is your Primary Plan the plan you have with Connecticut General? ( ) Yes ( ) No

4. Are all of your employees eligible to participate in this plan? ( ) Yes ( ) No

   ( ) All are eligible.

   ( ) All classes of workers are eligible if they meet the hours, service and age standards.

   ( ) Other workers are excluded. (PLEASE DESCRIBE WHICH WORKERS ARE EXCLUDED)

   ____

5. Was the existence of this plan or any of its provisions determined through a collective bargaining or union negotiation process? ( ) Yes ( ) No

6. What is the NRA under your current plan?

7. Does your plan permit employees over NRA to draw their pension while they continue working for you? ( ) Yes ( ) No

   If Yes: If works full-time ( ) If works part-time ( )

8. Does your plan currently suspend benefits if a retiree returns to work for you? ( ) Yes ( ) No

9. Does your plan currently give credit for service worked beyond NRA? ( ) Yes ( ) No

If yes, how is this accomplished? Check all that apply:

a. Recognize salary earned during postponed retirement period. ( )
b. Recognize increased length of service for years in postponed retirement period in computing benefits. ( )
c. Increase benefit payable at NRA by applying postponed retirement factor. ( )
d. Provide for contributions during postponed retirement period. ( )

If no, do you plan to change this policy in the near future? ( ) Yes ( ) No

B. SOCIAL SECURITY AND PRIVATE PENSION IN THE FUTURE

Given the following scenario in the year 2000:

- As a result of the lower birth rates in the later half of the 20th Century, relatively few new workers enter the labor force.

- People are living longer and enjoying better health.

- The ratio of workers to Social Security beneficiaries drops to 2 to 1 (from 3.3 to 1 in 1982).

10. Do you think that older workers should be encouraged to remain in the labor force? ( ) Yes ( ) No

11. Do you think that increasing the NRA under Social Security is a good way to encourage the older worker to remain in the labor force? ( ) Yes ( ) No

If yes:

a. To what age? ( ) Age 68 ( ) Age 70 ( ) Other ________

b. Most suggestions recommend phasing in the increase over a period of years. What approach would you favor?

1. Start in 1990 and complete by the year 2000. ( )
2. Start in the year 2000 and complete by 2012. ( )
3. Other (please specify)________________________________

12. Would raising the Social Security retirement age in the late 1990's or early 2000's cause your business particular problems?

( ) No Why?

( ) Yes Why?

13. If the NRA under Social Security were raised to age 68 in the very near future, what action would you take regarding your corporate retirement plan?

a. Make no changes. ( )
b. Raise the NRA under your plan to coincide with the Social Security NRA. ( )
c. Freeze benefits at age 65 (or your plan's current NRA, if different). ( )
d. Retain present NRA and increase private plan benefits to make up for the cut in Social Security benefits available at that age. ( )

14. Is your pension plan integrated with Social Security? ( ) Yes ( ) No

If yes:

a. At what age? ______________
b. Would an increase in the Social Security NRA cause you to change the way in which your plan is integrated?

( ) No
( ) Yes --- (PLEASE SPECIFY IN WHAT WAY YOU WOULD MODIFY THE PLAN)

____

____

15. If the NRA under Social Security were increased, do you think reduced Social Security benefits should continue to be available prior to NRA? ( ) Yes ( ) No

If yes:

a. At what age? ( ) Age 62 ( ) Age 65 ( ) Other ______________

b. On what basis?

( ) Actuarially-equivalent to a benefit claimed at NRA (when claimed prior to NRA, the benefit has the same total value over the remaining lifetime of the beneficiary)?

( ) Subsidized basis (when claimed prior to NRA, the benefit has a greater total value over the remaining expected lifetime of the beneficiary)?

16. Instead of changing the NRA for Social Security, do you think other alternatives would be preferable to encourage the older worker to remain in the labor force? ( ) Yes ( ) No

If yes, which of the following would you prefer? Rank in order of preference from 1 to 5 with 1 being the highest.

a. Increase the reduction in the Social Security benefit when one retires early. ( )

b. Provide greater benefit increases under Social Security for those who work beyond age 65. ( )

c. Eliminate the retirement income test. ( )

d. Eliminate mandatory retirement age. ( )

e. Other (please specify)______________________________

17. Raising the retirement age under Social Security reduces benefits by shortening the period of time over which benefits are paid to an individual retiree. Instead of raising the NRA to reduce Social Security benefits, do you think the general level of benefits should be reduced across the board instead? ( ) Yes ( ) No

18. Additional comments regarding the direction Social Security should take.

C. YOUR BUSINESS AND WORK FORCE CHARACTERISTICS?

19. What is the nature of your business? (please describe)

____

____

____

20. How many employees do you have? ____________________

21. Could you give a rough breakdown of your workforce by the following worker classifications? (PLEASE DESIGNATE EITHER THE NUMBER OF WORKERS IN EACH CLASS OR THE PERCENTAGE OF YOUR TOTAL WORKFORCE. YOU DO NOT HAVE TO DESIGNATE BOTH)

	Number	or Percent	Are they represented by a union? Yes	No
Professional	____	____	____	____
Administrative	____	____	____	____
Technical	____	____	____	____
Clerical	____	____	____	____
Blue Collar	____	____	____	____
Trade or Craftsmen	____	____	____	____
Other (specify)	____	____	____	____

Name of Respondent: ____________________

Position: ____________________

Company: ____________________

Address: ____________________

Telephone Number: ____________________

DEPARTMENT OF HEALTH AND HUMAN SERVICES,
Baltimore, Md., February 9, 1983.

Mr. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee, Washington, D.C.

DEAR MR. ROSTENKOWSKI: I urge you to oppose the proposals to diminish my Civil Service Retirement benefits. I have served my nation my entire career beginning in 1950 when I enlisted for 4 years in the United States Air Force. Upon an honorable discharge, I entered civil service with the Social Security Administration and have spent my entire career here. Now at age 52 with 33 years of service, I am stabbed in the back, kicked in the groin, spat in the face, and given a crown of thorns to serve 10 more years so that I may obtain my full federal retirement benefits.

As Rodney Dangerfield says, "I get no respect."

With federal pay caps, paying 1.3 percent to the Medicare Program, a potential increase in the civil service contribution rate, freezing limits on my ultimate annuity; collectively, do not enhance my former personal pride of being an employee of the government of the United States of America. So, my dear servant of the people, please speak out for me and my colleagues in defeating legislation that is not logical, equitable, or reasonable for federal employees.

Very sincerely yours,

EDWARD R. COADY.

P.S. I would be happy to testify before your committee. You can reach me at 472 New Computer Center.

FREDERIC W. COOK & CO., INC.,
New York, N.Y., January 20, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means, Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: I am writing on behalf of Frederic W. Cook & Co., a management consulting firm specializing in executive compensation. Our firm wishes to express support for a recommendation of the National Commission on Social Security that amounts contributed by or on behalf of an employee to a qualified cash/deferred or salary reduction plan ("§ 401(k) plan") should be treated as "wages" for Social Security purposes.

We understand that this issue is not likely to be a primary focus of attention at the February hearings. We hope, however, that by calling it to your attention, such a proposal will be included in any proposed legislation forthcoming from the Committee on Ways and Means.

Because contributions to § 401(k) plans are presently excluded from the definition of "wages" under IRC § 3121(a)(5) and Social Security Act § 209(a)(5), implementing such a plan could result in a reduction in Social Security benefits for any employee electing deferrals whose current earnings do not exceed the Social Security taxable wage base. This consideration has deterred our firm and, we suspect, other firms from adopting a § 401(k) plan.

We believe that any legislation amending § 3121(a)(5) and § 209(a)(5) should retain the exclusion from "wages" for other forms of qualified retirement plans (and IRAs and H.R. 10 plans). § 401(k) plans are readily distinguishable from other qualified retirement plans, in that amounts are deferred on a pre-tax basis. As a result, notwithstanding the statutory anti-discrimination rules, the pre-tax deferral feature makes § 401(k) plans more valuable to higher-paid employees. We thus think it appropriate that employers should be required to pay FICA taxes for participating employees whose earnings are below the wage base, thereby preserving their Social Security benefits, as the quid pro quo for adopting a § 401(k) plan which is likely to provide greater benefits to higher-paid employees.

Adopting the Commission's recommendation would add revenues (albeit, to a limited degree) to the Social Security System and thus would serve a second policy objective.

We appreciate the opportunity to express our views.

Sincerely yours,

CATHY J. RAPHAEL.

STATEMENT OF DR. WILLIAM C. GREENOUGH, CHAIRMAN OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT, SUBCOMMITTEE ON RETIREMENT POLICY, AND RETIRED CHAIRMAN, TIAA-CREF

Mr. Chairman, I appreciate the opportunity to present my thoughts on the proposed recommendations of the National Commission on Social Security Reform. As you probably know, I served both as Chairman for the Committee for Economic Development's Retirement Subcommittee which issued a report proposing solutions to this critical problem more than a year and a half ago, Reforming Retirement Policies (September 1981) and, from 1979-1981 as a member of the President's Commission on Pension Policy. As I recall from the earlier discussions you and I have had there was substantial agreement on a number of ways to resolve the Social Security financing dilemma. Although much time has elapsed since then, I just want to say that your continued leadership has been vital to getting us to where we are today.

I would like to submit for the record a brief summary of CED's 1981 recommendations. The Committee for Economic Development is currently preparing an in-depth analysis of the Commission's recommendations which, unfortunately, will not be completed by your Committee's deadline for submittal of additional documentation. However, I would like to offer this analysis for your consideration as soon as it is finished, perhaps in a more informal way.

In the meantime, let me summarize my own views on the Commission's recommendations which I believe, also, reflect in large measure those of my colleagues at CED.

The National Commission on Social Security Reform has put together a package of mostly short-term compromises. Hardly any of the details are perfect, and the major long-term demographic and economic trends that can cause overwhelming financial problems early in the next century are scarcely addressed in the recommendations. And yet, we believe that the package should be approved, now, and in its entirety. This is a rare opportunity for the two parties to join in accomplishing long overdue changes. This opportunity must not be nibbled away by advocates on either side. The recommendations are too little; let us not allow them to be too late also. It will be most disheartening if this bipartisan effort falls apart. It should solve the short-term cash flow problems that otherwise will overwhelm the system later this year. It establishes several precedents. For almost the first time, when benefits outrun financing or good sense, they can be slowed down a bit rather than relying only on increasing taxes. When reserve funds fall below certain levels, benefit escalation would slow down until the reserves are rebuilt. And at least some part of Social Security benefits would be included in taxable income, as are wages, dividends, interest, pensions and most other income. Finally, federal employees and more state and local and nonprofit workers would be covered by the national program.

The Social Security Commission reached agreement on a total package estimated at $168.7 billion. Many of us can challenge some of the assumptions, which have frequently been far from the mark, or the method by which a particular "gain" was achieved. But if the package is approved, the system will be some $150 to $200 billion sounder, financially, than if the system is allowed to flounder in 1983 on its present course.

The CED supports this package as a package and although we do not have an official position on the recommendations, I can confidently state that the majority of CED's trustees support the package and would encourage the Congress and the President to enact the Commission's recommendations as soon as possible.

It is noteworthy that the Commission's short-term recommendations follow some of the principles established by the CED, the 1979-81 President's Commission on Pension Policy, the National Commission on Social Security Reform and a number of other groups. Unfortunately, the differences among the recommendations have been played up vigorously; the areas of agreement are all too often overlooked.

It is especially important to note that none of these prior groups, including our own CED Subcommittee, recommended radical changes in the structure of Social Security. All agreed with the Social Security Commission's decision to reject proposals making Social Security voluntary, or fully funded, or needs tested, or a government-run imitation of private pension plans. They all agreed that the long- and short-term financial problems required vigorous and immediate attention. They all agreed on universal coverage.

Despite my general enthusiasm for the recommendations the Commission has made, too much remains unresolved. If the Commission's recommendations are turned into law, everyone should applaud, but only lightly. Phase I will be over, but a Phase II, in my view, will be an absolute necessity and will require similar effort devoted to solving the long-range problems. Agenda items for new discussions should include the early and normal retirement ages under Social Security, adjusting benefit escalations so that Social Security benefits would not outrun wage rates, working toward elimination of employee Social Security contributions from taxable income and elimination of the $20,000 and $25,000 limits on inclusion of half of the benefits in taxable income, and full coverage for every American worker.

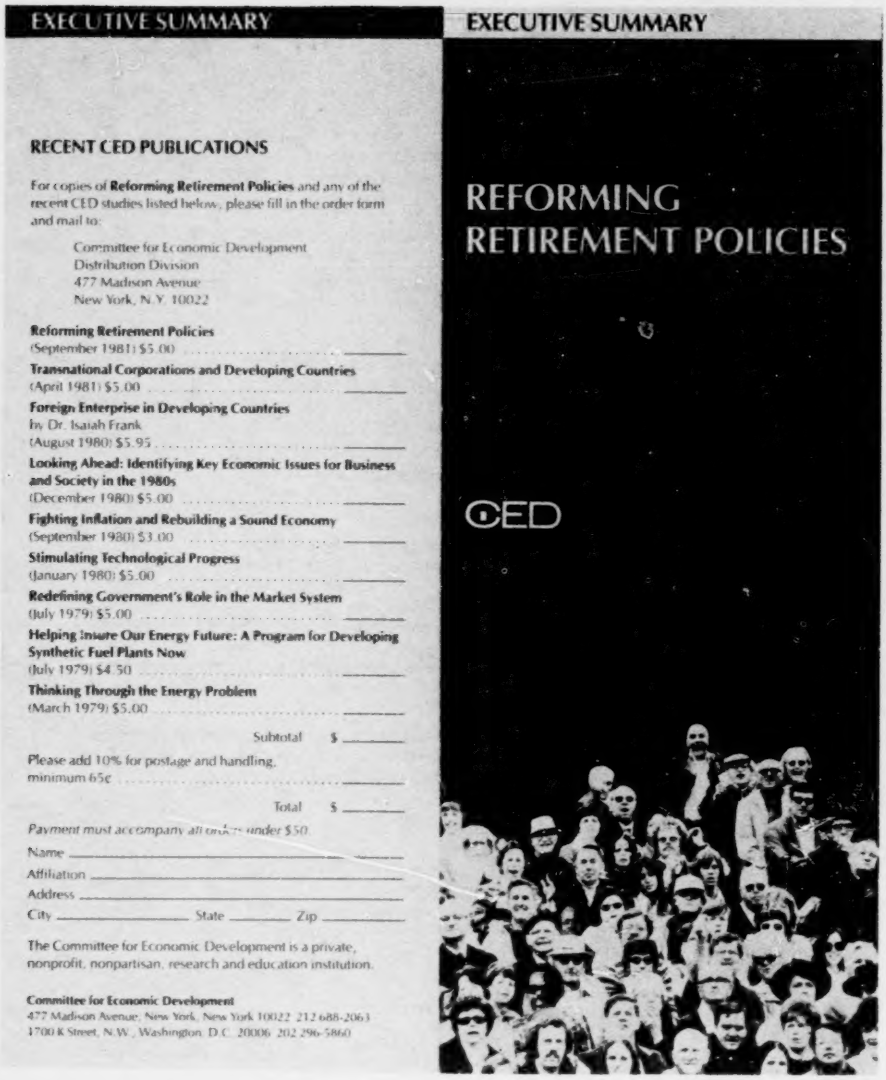
Phase II must also come to grips with the horrendous financial implications of our present course in medical and disability benefits under Social Security.

A major disappointment with the Commission's recommendations has to do with delayed retirement. Only nine of the fifteen members agreed that a one-year increase in retirement age should take place early next century. This really is "too little and too late." Various groups have agreed on a three-year extension of the retirement ages to be accomplished by or before the start of the 21st century. Workers deserve adequate warning of such a change so it should be legislated now, or at least early in Phase II.

Perhaps the worst of the Commission's recommendations is one that superficially sounds good: From 1990 to 2010, gradually increase the delayed retirement credit for individuals between 65 and 70 from 3 to 8 percent per year. The argument is made that people should be "rewarded" for staying in the labor force by such an increase. But the significant question is whether people who are healthy and lucky enough to stay in the labor force from age 65 to 70 should have a Social Security benefit that is 40 percent higher (8 percent per year for 5 years) than other persons not so lucky. This would provide a much larger benefit for the very people who have had five more years of time to save. The serious problem is that the recommendation would give away most of the financial help to the system provided by eventual action to delay the retirement age. The increased bonus for later retirement sounds good but by itself would be a serious mistake.

The Social Security Commission understandably was not charged with looking at private savings and private pensions, which as you know was the chief focus of the CED study. The various other groups that have looked thoughtfully at the total problem of provision of income in retirement for Americans, including CED, all recommended a greater reliance on non-Federal sources of income. They recommended strong tax incentives both for personal savings for retirement and employer pension plans. In addition, the CED strongly recommended exclusion of employee contributions from taxable income, especially if some part of the benefits are to be included in taxable income. Greater reliance on private pensions and savings accomplishes several things at once. It increases the future retirement security of our people. It provides a huge source of capital formation to help readjust the relative undersaving of the United States compared with almost all western nations. And it can take an increasing amount of strain off both the welfare benefit and the Social Security programs. I believe you will find that Americans have begun and continue to devote considerably greater weight to private savings and private pensions as the main source of their retirement income and I would urge that this be continued.

Again, Mr. Chairman, I appreciate the opportunity to submit my views to the Committee and I would be glad to provide any additional information the Committee would like on our views and analysis of the Commission's recommendations.



EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

REFORMING RETIREMENT POLICIES

CED

EXECUTIVE SUMMARY

During the past fifty years, this country has developed a Social Security system and a wide variety of other public and private retirement programs aimed at allowing most American workers to retire with some measure of financial security. But several emerging economic and social trends have shaken public confidence in the ability of the nation to fulfill its retirement promises. Inflation, low productivity, and the growing number of older Americans combined with proportionately fewer and fewer younger workers, are placing enormous strains on both public and private retirement systems.

Far too many of the nation's retirement problems result from pension and benefit actions designed to address short-term needs and desires without regard to long-term costs and consequences. We believe that unless basic changes are made in the way the nation handles retirement income, future working generations will face impossible funding burdens and future retirees may face insecurity and hardship. On the other hand, if changes are made promptly, *this nation can develop a diversified retirement system that will both provide adequately for retirees and will significantly promote noninflationary economic growth.*

KEY POLICY ISSUES AND PROPOSED SOLUTIONS

- **What Kind of Retirement System?** This report calls for a three-tiered retirement system composed of Social Security, employer pensions, and personal saving. The report urges the adoption of incentives to expand personal saving and the number of workers covered by employer pension plans. Encouraging personal saving and expanding well-funded employer pension plans will reduce reliance on Social Security and permanently strengthen the economy. It should be stressed that unlike Social Security, these two means of generating retirement income involve saving in forms that can finance productive capital formation. While Social Security should provide a basic "floor" of income for retirees, the increasing role of personal saving and employer pensions will facilitate actual reductions in Social Security.

- **Encouraging Greater Personal Saving.** In the past, many tax regulations have actually discouraged personal saving. Recently enacted tax legislation raising the amount of tax-deductible contributions allowed for individual retirement accounts and making these accounts available to workers already covered by employer plans is a step in the directon recommended by this statement. CED further recommends that:

  — On the basis of experience, the contribution limits for individual retirement accounts (IRA's) and Keogh plans should be raised to higher levels than even those allowed in the recent tax changes. Contribution maximums should be raised to levels approaching the amounts that the law now allows to be contributed on behalf of an individual in a corporate plan.

- The maximum contribution limits under IRA- and Keogh-type plans should be indexed in the same way that the maximum limits for defined contribution plans are currently indexed.

- Businesses that already have pension plans should integrate some form of individual saving into their pension arrangements through matching thrift programs, profit sharing, or voluntary employee contributions.

- **Reforming Social Security.** Inflation, slow economic growth, and major demographic shifts are causing the costs of Social Security to soar. Unless changes are made now, Social Security taxes could become such a burden on workers and companies that they could cause severe social hardships and distortions. The report calls for a number of actions which will assure the long-term health of Social Security including:

  - Gradually raising the normal retirement age for Social Security from 65 to 68 and the age for early retirement from 62 to 65. (Alternatively, the early retirement age would not have to be raised if early retirement benefits were actuarially reduced, based on a normal retirement age of 68.) This recommendation takes into account increasing life expectancy and the fact that older Americans are generally in better health than ever before.

  - Linking increases in Social Security benefits to a price index which more accurately reflects the consumption patterns of older workers or to the rise in average pre-tax wages of workers, whichever is less. For a period of several years, consideration should be given to indexing Social Security increases at less than 100 percent to offset the inequity of Social Security benefits rising more rapidly than wages during the 1970s.

  - Deducting Social Security taxes paid by employees from taxable income and including the eventual benefits in taxable income when received. This tax change should be phased in. If this action is taken, the report also recommends eliminating the earnings test for Social Security recipients.

  - Gradually bringing federal workers and other noncovered workers into the Social Security system.

  - No new general revenue funding of Social Security.

- **Strengthening Employer Plans.** While most workers now can expect some form of employer pension, changes in pension policies can improve funding, broaden coverage, and help increase employer pensions' contributions to capital formation. Recommendations for employer pensions include:

  — Making all employee contributions to private pension plans tax-deductible (as is now permitted for employers contributions), and instead including the eventual benefits in taxable income when received.

  — Allowing employers maximum flexibility in establishing their own pension arrangements, including establishing retirement ages. The CED report rejects any government mandate for universal pension coverage.

  — A vested employee leaving a private plan can leave the vested amount with the employer and eventually receive a benefit. Employers with *fully funded* pension plans should also be allowed the option of transferring vested benefits of employees who leave to an individual retirement account or life insurance annuity.

  — Opposing 100 percent indexing of public employer pension plans for inflation. The report also recommends that any benefits paid upon early retirement (or "short" length-of-service for normal retirement) should eventually be actuarially based on a normal retirement age of 68.

We are confident that the policies we recommend can provide a workable, affordable, and humane source of retirement income for American workers and their families. At the same time, these policies will encourage saving and productivity and move this country toward an era in which the retirement system can make a greater contribution to capital formation that will enlarge the country's productive potential.

STATEMENT OF THE COMMUNIST PARTY, USA

The proposals of the bi-partisan National Commission for Social Security Reform, now before the House Ways and Means Committee, are the opening guns in a determined assault against all entitlements, the social gains won by the American people in bitter battles down the years.

Make no mistake about it. The so-called "compromise" package is designed to do far more than slash social security and reduce the standard of living of its recipients, already hit by the elimination of minimum benefits for new beneficiaries, the ruthless reductions of benefits for the disabled, the phasing out of student benefits and the restriction of death benefits. It is part of a full-scale drive against all entitlements, an attack launched by Big Business and the high command of both major parties.

What are the aims of the Commission's "package?" John Hess, an outspoken commentator of Channel 5 in New York, a Metromedia outlet, put the matter squarely in his Jan. 18 commentary:

"It lowers pensions for the retired, and raises taxes for wage earners, businessmen and self-employed. This at a time when the income tax will be cut for the third year running, so there's a further transfer of the tax burden from the well-to-do to the working population."

Mr. Hess went on to score the role of the media. He said:

"None of them has challenged the inflated figures used to show that there was a Social Security crisis. None of them suggested freezing income taxes, or restoring the tax on capital gains, or freezing military spending, not to mention congressmen's wages. . . . Even so Reagan would not move till the Democrats went along, and they stalled because they expected a public outcry."

By now it is public knowledge that the Commission's report was the product of backstage "intense pressure from the two principals, President Reagan and House Speaker Thomas P. O'Neill, Jr." as the New York Times (1/20/83) described it.

In fact, it was the Democrats on the Commission who came up with the proposal to delay the COLA, the cost-of-living adjustment which Social Security recipients get every July, a raise based on the jump in the Consumer Price Index. This represents a cruel blow to all recipients, particularly to elderly single women and widows.

President Reagan is described as being "elated" by the Commission report, as well he might be. For their part, the Democratic leaders hope they will escape popular wrath by what they term a "balanced package." They are praying that support for the package of two Commission members in particular—Rep. Claude Pepper, long the idol of the nation's senior citizens, and AFL-CIO President Lane Kirkland—will take them off the hook.

By exploiting Pepper and Kirkland the Democratic leaders expect to paralyze emerging protest movements, particularly in the senior citizens' organizations and trade unions. Thus they hope to veil their surrender in this major battle of big capital against entitlements.

But they are mistaken. Opposition is arising among the people and was already reflected in the first days of the hearings before the Ways and Means Committee. It will arise on the floor of the House and the Senate. It will come not only from members of the Congressional Black Caucus and other progressive members of Congress but above all from the grass roots of the nation.

The Committee has heard protests from the American Association of Retired Persons, the National Council of Senior Citizens, the Gray Panthers and other groups. But it is at the local level that a tidal wave of protest is mounting.

You already have before you a number of suggestions made by opponents of the Commission package. Among those designed to meet any temporary shortfall in Social Security funds are: infusion of general revenue into SS funds and a substantial slash in the obscenely bloated Pentagon budget with transfer of funds thus released for social needs. Opposition to taxation of benefits has been voiced.

We associate ourselves with these demands.

May we add that the Democratic majority which controls the House and the Ways and Means Committee delude themselves if they believe that they are immunizing themselves from political reprisals by joining in a "bi-partisan" Commission report.

They might well heed the advice of their fellow-Democrat, Mayor Andrew Young of Atlanta, who wrote in the Nation of Dec. 12, 1982:

"The Democratic Party must not only speak out against the failures of the Reagan Administration but come up with positive alternative policies and commitments. . . . They must focus on the fundamental problems: the lack of growth and the heavy burden of the military budget and the arms race. . . . A freeze on expenditures for nuclear weapons alone would save $90 million that could be used for more productive jobs and industrial expansion."

The Ways and Means Committee should junk the Commission report. It should come to the floor and fight for the proposals suggested by the senior citizens' organizations and their millions of allies.

STATEMENT OF THE EMPLOYEE BENEFITS AND RELATIONS COMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE

We welcome the opportunity to express our viewpoints on the Report of the National Commission on Social Security Reform. One of the most admirable achievements of the Commission was their agreement that there is a financing problem for the OASDI program for both the short run and the long range and that Congress should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.

Since President Reagan has endorsed the bi-partisan solution and from the practical standpoint that this is the best that can be achieved, the Council of State Chambers of Commerce endorses the Commission's recommendations even though we have serious disagreements with certain of them. If Congress decides to adopt its own plan for Social Security, then it would be appropriate to express serious concern along the following lines:

1. In general, we believe that the recommended solution is far too harsh on taxpayers and far too easy on present and future beneficiaries (except those who would have Social Security benefits taxed). Tax increases constitute about three-fourths of the Commission's total recommendation. During the 1970's, payroll tax rates quadrupled and are scheduled to triple again during the 1980's even without the Commission's recommendations. For 25 percent of all workers, Social Security taxes are higher than for federal income taxes, and for small businesses that employ the majority of American workers, the Social Security tax is the biggest federal tax. Raising taxes is likely to mean less employment, which is not appropriate when American industry is trying to recover from a severe recession.

2. One major concern about the Commission's Report is based on the fact that the cause of the present Social Security problem has been that COLA increases since 1977 have been based on price increases rather than on the lesser of wage increases or price increases. As a result, Social Security recipients since 1977 have fared far better than the general working population whose taxes support Social Security payments.

In light of this, it doesn't seem that there is nearly enough belt-tightening on the benefit side. The only belt-tightening for this factor begins in 1988 and then only if the combined OASDI fund rate falls below 20 percent of the annual outgo. If present recipients are being paid too liberally, then there should be belt-tightening at once. We would thus strongly prefer that beginning in 1983 the COLA adjustment be based on the lesser of wage increases or price increases.

3. Another major concern involves taxing of 50 percent of OASDI benefits for recipients having adjusted gross income of $20,000 or more (if single) or $25,000 or more (if joint return). These individuals for the most part paid the highest taxes during their working years and paid high rates of income tax on their Social Security taxes at the time such taxes were withheld. To subject these individuals to taxes on their Social Security benefits simply because they may have been provident and saved some of their money in earlier years so as to have an income from their savings after they retire is a very undesirable precedent. There are already enough impediments to capital formation without adding still another. A progressive tax will further reduce the return to the maximum Social Security participant. Further redistribution of income away from society's most productive and provident members is neither warranted nor equitable.

4. We oppose the introduction of federal general revenues for the financing of Social Security benefits. The proposal to allow a tax credit for the accelerated portion of the 1984 payroll tax would establish an undesirable precedent and is not consistent with the Commission's recommendation not to alter the fundamental structure of the program.

5. Finally, we are concerned that the recommendations do not contain enough about altering the retirement age; it would seem that this age could be gradually raised in the future. This would give individuals and employers a chance to plan, and it would not have the immediate impact that other of the recommendations would have (such as taxing Social Security benefits). Perhaps changing the retire-

ment age could be the basis of the additional 0.58 percent of payroll needed over the next 75 years.

We feel that it is necessary for Congress to act and to act quickly in as much as change is urgently required. Congress must face up to both the short and long range issues in its deliberations, which is necessary to keep the program fiscally sound and to avoid future public apprehensions.

POLICY RECOMMENDATIONS, OLD AGE, SURVIVORS, DISABILITY AND HEALTH INSURANCE, JANUARY 1, 1983

Financing

The objective in financing OASDHI should be the attainment of and adherence to the pay as you go basis through payroll tax financing, with the existing trust funds being retained as a contingency reserve against future financial emergencies, and with equal cost sharing between the employer and his employees. General revenue financing is not in the best interest of the Social Security program and is opposed. To accomplish this objective, rates could be adjusted when necessary to maintain an approximate balance between income and outgo. We support interfund borrowing if it is necessary to meet emergency short term financial conditions in one or more of the funds. We oppose the inclusion of Social Security benefits in the definition of adjusted gross income.

Retirement test

Substantial retirement from active employment should be maintained as a basic condition of eligibility for all OASI benefits. To that end, the present allowable earnings limit should be reexamined at intervals in light of changing conditions.

Benefits, eligibility ages

The normal benefit eligibility age should be reviewed commensurate with changing conditions including the financial soundness of the program. We support the elimination of inappropriate benefits, i.e., student and death benefits.

Taxable wage base

There should be no further automatic increase in the taxable wage base for OASDHI purposes. The maximum taxable wage base should not be raised above the historical relationship of the national average of covered taxable wages to total wages. Any increase in costs of the program should be met primarily through increased tax rates rather than through the "hidden" avenue of an expanded wage base.

Benefit amounts and formula

Recognition should be given to the need for reexamination of the benefit formulas in the light of changing conditions. The bend point indexation should be limited to the lower of the Consumer Price Index (or some other appropriate price index) or the wage index. The Committee emphasizes the necessity of holding OASI benefits to a minimum layer of protection, with preservation of the principle of relating benefits to past wage history. We support benefit equity for women and for men.

Automatic escalators

Alternatives to the current method of escalating benefits, the taxable wage base and the retirement earnings test should be constantly reviewed. In the interim, benefit adjustments should be limited so that increases for beneficiaries will not be greater than increases realized by wage earners. Benefit indexation should therefore be limited to the lower of the Consumer Price Index (or some other appropriate price index) or the wage index.

Coverage

OASDHI coverage should be universal and should be extended to all workers including governmental employees. This coverage extension should be accompanied by proper integration of OASDHI benefit rights with those provided under other special pension plans.

DENVER CHAMBER OF COMMERCE,
Denver, Colo., February 21, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
Longworth House Office Building, Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: The House Ways and Means Committee is currently holding hearings on one of the most important issues it will discuss—the financially-troubled Social Security system. As part of that Committee, you will be required to make a very important decision. It is one that will impact the business community and all Americans for many years to come.

The Small Business Council of the Denver Chamber of Commerce has been intimately involved in the social security issue over the past six months, and we have followed closely the progress of the National Commission, chaired by Alan Greenspan. We praise the National Commisison and its work in outlining the problems and focusing national attention on necessary reforms to ensure the long-term viability of the system.

Although developed in good faith under a bipartisan banner, the Greenspan Commission proposal contains several inherent problems. Much of the short-term proposal relies on burdensome taxes which will cause weaker economic growth and diminished capital investment, productivity, and savings. Recovery from high unemployment will also be weakened. Furthermore, the Commission left the long-term problem unresolved, providing no assurance to the public of the long-term viability of the system.

The Denver Chamber of Commerce has formally adopted a position which can be characterized as a modified version of the Commisison's package. Attached are details of that proposal and the reasoning behind its adoption. It is a position that was not taken lightly and was reached after many hours of discussion.

First, because of the impact of any reform, it is imperative the entire House give the Commission package and the Social Security issue a full and comprehensive examination. In light of our current economic problems, now is not the time to seek refuge under the umbrella of the Commission proposal.

Secondly, we hope you will give our proposal serious consideration. For true reform to occur, partisan politics must be put aside and objective decisions made. Reform can be accomplished without depriving Americans of the benefits they expect and without burdening the business community, especially our small businesses, with increased taxes.

We are anxious to hear your reply to our recommendations. Thank you.

Sincerely,

STEVEN I. BUTLER,
Chairman, Small Business Council.

Enclosure.

SMALL BUSINESS' STAKE IN SOCIAL SECURITY REFORM

As you are aware, small businesses are the job generators in our economy. As such, they are highly labor intensive. For this simple reason, reforms based on increasing the cost of hiring and retaining employees will severely impact small business' ability to generate more jobs. A recent poll conducted by our Small Business Council revealed two startling facts:

1. Almost one-half of our small firms pay more social security payroll taxes than federal income taxes; and

2. Over one-third say increased payroll taxes will adversely affect new hiring decisions.

Obviously, small business has a big stake in the Social Security issue:

- o Small business is more labor intensive and pays lower average wages than larger firms;
- o The structure of the Social Security paryoll tax makes the effective tax burden higher and more severe on small firms;
- o Small business is at a disadvantage with respect to tax shifting because they cannot pass increased tax burdens either forward or backward;
- o An increase in the payroll tax will add to the disincentives of a small business to create new jobs.

The small business community believes Social Security needs to return to its original concept and be placed on a sound financial basis for the long term. We do not feel the impact of specific reform proposals on the small business sector were adequately discussed in the Commission. Therefore, it is important Congress keep in mind the 14 million small businesses in our economy and the more than 100 million people who depend on them for their livelihood.

THE NATIONAL COMMISSION PROPOSAL — AN APPRAISAL

Legislation is needed by early May to solve the current Social Security funding crisis. The package endorsed by the National Commission takes a giant step in addressing the crisis and many of its specific items should be retained. However, an analysis of the Commission's recommendations reveal several shortcomings:

1. Economic Conditions - The 1977 Social Security financing legislation relied strictly on increased revenue from payroll taxes to solve the Social Security deficit anticipated at that time. That legislation was supposed to cure Social Security financing ills for 50 years — it lasted less than five years. It was a victim of adverse economic conditions — high inflation, high unemployment, high interest rates, low economic and wage growth. Those economic adversities are by and large, still with us. To rely heavily on payroll taxes again, as was done in 1977, is likely to risk another Social Security financing failure — one which would take a severe toll on public confidence in the system and once again set the stage for cutbacks in the system in the future. Recently, the Commission's Executive Director warned that under the proposed rescue plan, the system could encounter a financial crisis in the mid-1980's unless the COLA was stabilized.

2. Payroll Taxes - Payroll tax increases represent bad economic policy since they tend to add to inflation and unemployment and, at the same time, would make recovery from the current recession even more difficult. On the inflation side, payroll tax increases create upward pressures on prices as employers try to push the large increase in their labor and production costs forward in the form of higher prices. On the unemployment side, payroll tax increases raise the costs of hiring and retaining workers, thereby dampening employment levels and making unemployment an even more intractable problem. In analyzing the impacts of the 1977 payroll tax increases, the CBO estimated that by 1982, the 1977 tax hike would have depressed job levels by one-half million and would have added 0.5% to the inflation rate. It is clear to the business community, and especially to small business, that the increased payroll tax proposal is a tax on jobs.

3. Long-term - The Commission left open to Congress the problem of financing Social Security beyond the year 2000. Workers under the age of 45 have received no assurance that they can depend on the system they are now asked to save.

THE SOLUTION — A REVISED NATIONAL COMMISSION PROPOSAL

There are only two ways to solve the current funding crisis — increase revenues (taxes) into the system or reduce the flow of future outlays (benefits). It is clear that burdensome tax increases will result in weaker economic growth, diminished productivity, investment and savings, and weakened unemployment recovery. On the other hand, too many people have come to rely on the system to let it collapse.

The Denver Chamber of Commerce recommends the following revisions be made to the Commission package. These recommendations are outlined in Attachment B. (Attachment A specifies the current proposal endorsed by the Commission in January.)

AMEND IN THE PROPOSAL

Point 2: Taxing one-half of the benefits for upper income families. Although conceptually in disagreement with this tax, the Chamber will not oppose this item if the tax level were truly applied to upper income levels. We suggest a reduction in the impact to $17 billion — which should result in a tax on truly upper income recipients.

DELETE FROM THE PROPOSAL

Point 4: There are two accelerated payroll tax increases in the current proposal. Our previous arguments remain in regard to holding the line on such increases.

Point 6: Delete the self-employment tax comparability. The vast majority of our nation's small businesses are sole proprietors attempting to expand their businesses. Despite the additional tax credit, this provision will create additional hardships for our nation's entrepreneurs.

Point 10: Delete the automatic stablizer proposal. Action on correcting faulty indexing should begin immediatley.

The above amendment and deletions result in a package saving $98 billion in the short-term and approximately .71% of payroll in the long-term.

ADD TO THE PACKAGE

Point 11: Indexing the annual cost-of-living adjustment to the lesser in wages or prices with a catch-up provision. The current practice of indexing to the consumer price index has inflated the benefits being paid out. For the period 1974-1981, the effective wage increase after taxes was 57%. The same increase to Social Security benefits through automatic cost-of-living increases was 81%. Benefits are rising much faster than the wages of the workers who support them. A "catch-up" provision should be provided so that in times of a healthy economy — when wages rise faster than prices — benefits will be increased by wages if they had previously been increased by less than the full CPI.

Point 12: Use a medical definition only for disability benefits. Currently, non-medical factors such as age, education, and work experience are considered in determining disability.

Point 13: Raise the retirement age to 68 by 2017, beginning in the year 2000. This recommendation, endorsed by many groups around the nation, is based on the simple actuarial fact that people are living — and collecting benefits — longer. A gradual increase in the retirement age between the years 2000 and 2017 would eliminate two-thirds of the long-term deficit. Our nation will need to rely on this older workforce because of the predicted labor shortage after the turn of the century.

CONCLUSION

The Chamber's final revised package results in $169 billion in short-term savings (the same as the Commission's package) and solves the long-term problem by saving 1.99% of payroll.

In addition, we suggest Congress assist in expanding the incentives for personal saving and private pension plans. This strengthens the original concept of Social Security as one part of a three-legged retirement program. Legislation permitting more individuals to open tax-deferred IRA's was a big step in the right direction. Now, limits on contributions should be raised. Unnecessary government regulations that interfere with the development and expansion of private pension programs should be eliminated.

Finally, while a solution must be found, it is most important that the solution be one that will allow the economy to move forward. The current Commission proposal relies on raising taxes as the means to bail-out Social Security. We have a difficult time understanding how increased taxes can result in the so-called dollar "savings" in the package. The Denver Chamber of Commerce feels that our proposal will solve both the short- and long-term funding problems, while enabling the business community to help lead the nation out of its current ecnoomic situation.

A

GREENSPAN NATIONAL COMMISSION

RECOMMENDED BIPARTISAN SOLUTION

		1983-1989 Savings (billions)	75 Years (% of Payroll)
1a)	Coverage of all non-profit employees and new federal hires	$ 20	.30%
b)	ban withdrawal of state and local employers	3	—
2)	Inclusion of 50% of benefits in income tax base for upper income beneficiaries ($20,000/$25,000)	$ 30	.60%
3)	Six-month COLA delay	$ 40	.27%
4)	Payroll tax rescheduling	$ 40	.02%
5)	Equity adjustments	—	-.06%
6)	Self-employment tax comparability, with deductability for "employer" share	$18	.19%
7)	Military service credit and unnegotiated checks	$ 18	—
8)	Between 1990-2010 gradually increase delayed retirement credit from 3% to 8%	—	-.10%
9)	Provide for OASI and OI tax rate reallocation and for OASDI interfund borrowing from HI over 1983-1987	—	—
10)	Automatic stabilizer: lesser of wages or prices triggered by 20% fund ratio after January 1, 1988 (catch-up if fund ratio above 32%)	—	—
	TOTAL	$ 169	1.22%

B

DENVER CHAMBER OF COMMERCE
SMALL BUSINESS COUNCIL

REVISED NATIONAL COMMISSION SOLUTION

		1983-1989 Savings (billions)	75 Years (% of Payroll)
1a)	Coverage of all non-profit employees and new federal hires	$ 20	.30%
b)	ban withdrawal of state and local employers	3	—
2)	AMENDMENT - Inclusion of 50% of benefits in income tax base for upper income beneficiaries ($40,000/$45,000)	$ 17	.30%
3)	Six-month COLA delay	$ 40	.27%
4)	DELETE - Payroll tax rescheduling	—	—
5)	Equity adjustments	—	-.06%
6)	DELETE - Self-employment tax comparability, with deductability for "employer" share	—	—
7)	Military service credit and unnegotiated checks	$ 18	—
8)	Between 1990-2010 gradually increase delayed retirement credit from 3% to 8%	—	-.10%
9)	Provide for OASI and OI tax rate reallocation and for OASDI interfund borrowing from HI over 1983-1987	—	—
10)	DELETE - Automatic stabilizer: lesser of wages or prices triggered by 20% fund ratio after January 1, 1988 (catch-up if fund ratio above 32%)	—	—
	SUBTOTAL	$ 98	.71%
AMENDMENTS			
11)	Index the annual cost-of-living adjustment to the lesser in wages or prices with a catch-up provision	$ 60	—
12)	Disability benefits reform — use medical definition only	$ 11	.06%
13)	Raise the retirement age to 68 by 2017, beginning in the year 2000	—	1.22%
	GRAND TOTAL	$ 169	1.99%

LITTLETON, COLO., *January 21, 1983.*

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

I am certain you realize that if all new Federal employees are covered under Social Security that the old Federal retirement fund will go broke in 10 to 15 years.

I hope that you will support a proposal to have the Federal government increase its contribution to the Federal retirement fund to make up for the lost contributions from the new employees. It is not fair to have the older Federal employees subsidize Social Security by cutting off all the new employee contributions to their Civil Service Retirement Fund and diverting them to the Social Security fund. the old Federal employees will then be expected to cover the deficit by increasing their contributions and raising their retirement age.

I hope you will consider the point I have raised and protect the older Federal Employees.

Very truly yours,

KATHLEEN ELLISON.

STATEMENT OF BUN B. BRAY, JR., EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION

Before expressing the views of this Association regarding the proposals associated with the future solvency of the Social Security Program, some background of the Federal Managers Association (FMA) itself will be useful to this Committee. That background has much to do with the FMA position and why it should be of critical importance to the Members of this Committee.

The FMA is the oldest and largest management organization in the Federal government. It dates back to the early 1900's when it was formed to provide an effective vehicle for input into top management decisions. Its membership is comprised of all levels of managment from first-line supervisors in the wage grade system through managers and management officials in the upper reaches of the general schedule.

These men and women are responsible for the day-to-day functions of government. It is their job to meet schedules through the work of their employees. A function of the supervisor is selecting new employees from applicants, assigning work, recommending advancement of better employees, discipline and the whole range of human resources management within the scope of their work responsiblity.

The point of all of this is that the people whom FMA represent are the only ones with direct, first hand, and absolute knowledge of the quality of the rank and file Federal employees. Alan Greenspan who had the awesome responsibility of developing the Social Security recommendations, and we take no issue with his competency, has no such knowledge. The Members of this Committee have no such knowledge. The staff of this Committee has no such knowledge. Indeed, even the Director of OPM has no such knowledge whether he professes to or not.

Clearly, the Congress must consider issues affecting Federal employees very carefully because they can have a devastating affect on service to the taxpayer by these employees. If the Civil Service system operates at it should, and I believe that it does in spite of the criticism it receives from time to time, it will attract a work force at least as good or better than the private sector. I believe that is a cornerstone of the Public Employee system and it's importance is self evident.

The Civil Service system of the U.S. is perhaps the most complex in the world. The regulations, policies and programs within it are tied so close together, are so intertwined that changes to any one part can have a positive or negative effect that will ripple through the entire system. When the Wage Grade system was raised and GS was not, which occurred for a long time, it became exceedingly difficult to move our best Wage Grade supervisors into GS ranks. That short sightedness has had a constrictive impact on the career development system which in turn has driven our best people to early retirement.

Another example is Merit Pay which has been disasterous. Instead of an incentive to better performance, it is a true and unfortunate disincentive. It has rippled into career development paths, damaged morale in management ranks, precipitated unfortunate losses to retirement, impaired recruiting and so forth. The ripple effect.

Now let's look at the proposal to include new employees in Social Security. Where will that ripple? The answer is, everywhere through the system. Recruitment, pay, retirement, morale and many other parts of the Civil Service program that directly impacts on service to the American taxpayer.

RECRUITMENT

Whether you want to face the truth or not, the fact is that Federal pay lags behind the private sector in many important skills. This is especially true in the technical field such as engineering and the sciences. (As an aside, I would point out that these areas are particularly important because of today's technological revolution and the Federal government can ill afford to not keep pace). In today's bloated economy, desirable recruits are looking harder at the bottom line than ever before. "How much will I take home?" While the Federal pay offer is less than the private offer, because of the Social Security deduction, the bottom line figure rises at least close enough to be competitive. Much is made of the Federal retirement program being a generous one, and it is attractive. It ought to be. The Federal government must maintain a competitive posture in the job market and without a competitive pay program, there is only the benefit side of the equation left. Heretofore, we have had at least that tool to entice quality applicants. If the proposal passes to bring new hires under Social Security, that tool will be gone forever. The result will be that only marginally competent people will apply because the others will go elsewhere; where the bottom line is best. If you were a bright, young engineer, what would you do? The ripple effect. What plan has this Committee to improve pay to offset that effect? Of course, you have none.

RETIREMENT

The Federal retirement program is generous and I have already pointed out why it ought to be. It is most often criticized because is allows retirement at age 55. Many say that is too young. They claim that Federal employees want to "retire" at that early age. These claims are wrong. What is true is that Federal employees "retire" at 55 to "get out of government service". What a terrible indictment of our government as an employer. Why is this true? Morale. Since the comparability concept was put into place, Federal employees have received it only once. Candidates for high office flail away at government as a horrid institution which is responsible for all of society's problems. "The bureaucrats have caused it". Translation: Federal employees are no good.

For the last ten years, the retirement program has been attacked by Congress and Administrations, culminating with this Administration's determination to conscript its workforce. The Congress has never appropriated funds for the retirement, preferring instead to borrow from it and pay the interest. Then it runs around complaining at the cost. The simple fact is that employees do not trust their employer and are leaving because that's the safest decision.

This proposal will jerk the foundation right from under the retirement program. If you were 55 and at 30 years service, what would you do? The ripple effect.

PAY

Federal employee pay has dramatically eroded just in the last three years. On October 1, 1982, Federal workers received a 4 percent pay raise. In January of '82, the health benefits program costs to individuals skyrocketed because of shortsighted decisions of OPM. In January 1983, Federal employees began paying a 1.3 percent medicare tax. In addition, the Congress again readjusted the retirement program. The net result of all this was a pay loss! This proposal to Federal employees is a pay loss by any calculation. The ripple effect. I would also add that this Administration proposes a zero pay raise for Federal workers this year.

Facing pay losses, many Federal skilled employees will take our what they have in retirement and take other jobs. Other employees will retire as soon as possible, and still others dedication to their jobs will decline.

Consider this. If recruiting is impaired as it surely will be, and our best say "goodbye" to government service, the taxpayers will be the loser. Then what? Who then will be Congress and the Administration's scapegoat?

These are not speculative thoughts. Supervisors and managers tell FMA's staff that it's happening now! Now, even before the Congress decides.

Finally, there is cost. Obviously, a supplemental retirement program will have to be developed for new employees. Although based on the Government's record as an employer, you may decide to go back in time to the days before a Department of Labor and not bother. Hopefully, you will provide one. But what kind of program can you offer that is of any real value without experiencing substantial costs? The government must match Social Security costs, will have to contribute to the new retirement program, and pay into the cost of the current system. The ripple effect.

How will this Administration explain to taxpayers why they are paying into 3 major retirement programs? At that same time, how will Congress explain to taxpayers why the service they receive from government has deteriorated?

The ripple effect of this proposal is devastating.

STATEMENT OF ALLAN COSSENTINE, TEMPORARY SECRETARY-GENERAL, FEDERAL PARTY OF THE UNITED STATES OF AMERICA

SUMMARY

The problems of Social Security are not amenable to minor adjustments and small age-scale changes.

Social Security depends upon a thriving economy for its basic funding.

The Federal Party proposes that monetizing the interest-bearing bonds which are now an obligation of the Federal government bring prime interest down to 2½ percent.

This would be accomplished by the fact that the 1.25 trillion dollars in interest-bearing bonds would now be available as loans to the private sector of business.

This would reduce the capital requirements for all businesses, as well as individuals so that the upsurge in the economy could result in an additional 200 billion dollars of income to the government.

Also, there could be another 200 billion dollars saved because of the diminished requirements of the unemployment and welfare funds.

As a result, there could be within 18 months a budgetary surplus of 250 billion dollars with which many worthwhile projects in education and re-training could be again funded.

We start with the story of "Thidwick, The Moose".

STATEMENT

Mr. Chairman, Honorable Members of the Committee, Ladies and Gentlemen: I thank you for inviting me again to appear before your committee, and I wish to present the position of the Federal Party of the United States of America on the repairing of the Social Security system.

In 1937 the Social Security system was started, based on a sound actuarial system. Therefore, the problem is not with the idea of social security. The problems have attached themselves like barnacles and leeches to the system to the years since.

The President's suggestions contained in his State of the Union address are good as far as they go, but without the monetization of the bonds and the subsequent return of 2½ percent prime interest, they are not enough.

The Federal Party feels that no aspect of government, whether it be defense or domestic programs can be sufficient without the basic changes that we are suggesting.

We beg leave to continue with the story of "Thidwick, The Moose". We believe it illustrates perfectly the dilemma as we all now see it.

XXIV. THIDWICK, THE MOOSE

We have been thoroughly bemused (not amused) by the political ruckus that has been raised concerning the treatment of the Social Security plan in this country.

In a children's book there is told the story of Thidwick, the Moose who one day informed his friends that he planned a trip beyond the river, which means he would have to swim across it. He was immediately approached by his friend, Red Squirrel, who asked if he could perch on one of Thidwick's antlers as a passenger. Thidwick agreed, whereupon the squirrel found he had other friends who also wanted to come along. The poor moose, having granted passage to one, was hard put to deny the importunings of all of the squirrel's friends. The result was that he took off on his swim with a hatrack-full of passengers that weighed him down so that he was unable to get across without sinking. The passengers then had to strike out for themselves.

If this happened in America, we could believe that thereafter the families of all his passengers were soon suing the poor moose for damages. Every time we hear the verbal steam generated from Washington over the reforming of Social Security, we can't help thinking of poor Thidwick.

Constitutionally speaking, the administration of a Social Security plan, as first conceived, would properly be in the purlieu of the Federal government. Within our national borders the population is highly mobile. It is therefore natural for the Federal government to be the agent of administration. To this we have no quarrel. The problem that has developed, however, is not the original concept but the machinations of self-serving and subjective-thinking politicians who make up the Congress. And undoubtedly they had help from office holders in other areas of the Federal government. We believe the present mess is primarily, because of its sovereignity, the main responsibility of Congress.

To begin with, the Social Security funds that were set up at the beginning of the program in 1937, resulting from the Social Security taxes at that time, were to be invested for the purpose of achieving growth and interest in the market place. Congress has not been above raiding the Fund for general spending purposes by merely depositing interest-bearing bonds through the years in return for the Fund's assets when other investments could have paid more. In short, the problems of Social Security have been definitely due to nearsighted policies of the Congress during the last 45 years.

In the thirties many families were living, raising children and buying new cars on less than $100 a month. Naturally this required some accommodations we usually do not see at the present time. But the original prospect of people retiring on $65 a month seemed sufficient provision for old age in the 1930's. Naturally as the value of the dollar sank, inflation began to take over and prime interest began to climb, it would only be reasonable that in sound actuarial practice the benefits would be adjusted upward. With the infusion of abundant capital into the economy resulting from the war situation in Europe in the last of the 1930's, wages began to grow and the gross amount of Social Security taxes collected represented a multiple of the original amounts. This caused the fund to grow, especially during the war years at a rate many times of what had been originally anticipated. As a result, politicians began to clamber for this and that benefit to be added to the obligations of the Social Security system without providing sources for funding the additional demands upon it. Soon, instead of being a straight benefit to the worker who provided the original cash, there were added special benefits, not only for children of deceased primary contributors to the fund, but also other benefits provided to their families and to their children for various reasons while the original providers were still alive and while they had not attained the magic age at which their benefits should start.

Naturally too, the rules were often bent to include opportunists of all ilks who could convince some Social Security officer that they were entitled. With politicians seeking re-election every two to six years, it was no wonder that irresponsible attitudes toward the obligations of the Fund were forthcoming.

We have no quarrel with the using of the Social Security system, in itself a comparative model of operating efficency, to be used as the administrative arm for any benefits proposed and put into force subsequent to the original intent of the basic program. We do feel, however, it has been highly irresponsible of Congress to hand out all of these extra benefits at the expense of the Fund without accompanying provision for the financing. True, at intervals the rate of taxation has grown to where today it is a distinct pain in the pocketbook. But because of the extra unfunded demands made on the Fund the taxes have not been able to keep up. And there is no reason they should. Many of the extra obligations should have been directly provided from general funds and still should.

Take the case of Medicare. It was established as a Social Security fund obligation without a secure base for it's monetization. We have mentioned in our chapter on Medicare that over all national administration of such a policy has resulted in unadreamed-of cost over-runs in medicine. This would naturally have the effect of depleting the Fund unmercifully.

So now we come to the winter of 1982-83 with the monies of the direct Fund running out and the Social Security administration wildly casting about for anything it can "borrow". In addition, the prospects are that the Fund will run behind $250 billion by 1990 and the only hope for financing it will be general taxes.

To add additional tax loads to the general population for a plan that should have been self-supporting is a travesty. Under the circumstances, however, is has to be done in order to keep faith with the rightful recipients.

There is, however, hope. The Federal Party's program of monetizing of the interest-bearing bonds of the Federal government will provide the only tenable answer yet seen on the horizon. Not that the $137 billion annual interest savings would do the job (they won't) but the subsequent lowering of the prime interest to 2.5% as a result of monetizing the Federal government bonds would generate such a surge in business that the Federal government could find itself with an additional yearly income of over $200 billion with no deficit to worry about since the social demands would be reduced below the deficit point. Anything else in the way of a plan is only inept politics.

It never made much sense to the Federal Party to assign arbitrary ages at which benefits should begin. Consideration should be given to the physical condition of the recipient, his ability to work and his opportunity to work beyond a certain age. A person who is happily engaged in a career, or in a job which he enjoys and at which he is doing well, should not be subject to cut-off dates. The original designation of 65 as the age for automatically receiving benefits was based on the life expectancy averages of 45 years ago. This might have made good sense in 1937, but because of the increase in healthy longevity, does not exactly make sense today. We remember a friend who upon reaching the age of 62 said, "I would rather have less now than more later." And for no reason other than his cupidity went into retirement, a perfectly healthy individual whose looks belied his real age, and who could have gone on enjoying his work for another ten years.

Parenthetically speaking, we might add one other source of difficulty. The arbitrary setting of an age at which one becomes officially eligible for benefits, needed or not, has a way of extending its way through private industry as well. Many times pension funds are built up on the premise that at a certain point after so many years of service, it is cheaper to pension off the employee than to continue his/her use in the business. There may be actuarial reasons for this or they hide other motivations for putting the worker out to pasture. But a worker who has worked for thirty years for one company is usually at an age where it becomes difficult to compete with younger workers for other jobs. This, then, emphasizes the necessity for that worker to seek to collect benefits from the Social Security program as soon as possible. Therefore we feel that such pension-planning strategy on the part of large companies would be a proper area of legislative correction. The overlooking of the fact that the worker may be well adjusted and trained to be efficient in his job could constitute actually a considerable loss to the economy as a whole.

The minor adjustments suggested by the Reagan administration, if they would go anywhere towards correcting the situation, would seem to us to be relatively a cheap cure. We do not, however, believe that they are sufficient. The Federal Party suggests that arbitrary ages for receiving the benefits should not be tightly established so that these benefits would be frozen, not only into how much the recipient can get, but also into how much the fund can receive. Particularly, at the high rewards of interest being paid on investments in this day and age, we feel that it would be very possible to set up inducements for working individuals to continue working past their arbitrary ages.

By working beyond these arbitary times, people could be promised a sufficient increase in benefits so as to induce them to continue their contributions to the fund before starting to draw them out. We feel this would be a very helpful improvement.

As for Medicare, the Federal Party feels that it would be cheaper to create inducements for people to use private insurance sources. If the government stayed at all in the business of funding Medicare expenses, the Federal Party would suggest that the Federal government should cover only major catastrophes or dread disease expenses which can accumulate above any normal insurance policy's ability to cover such costs. By the nature of their own business the insurance companies would have the incentives for keeping down the cost of medical care. But because as a person gets older, his medical expenses seem to increase and because the government at that time is more inclined to step in and cover expenses under the Medicare account, there is no incentive for insurance companies to keep down their costs because they are not primarily responsible for the medical bills of the elderly.

For instance, such "non-profit" organizations as Blue Cross will find that if medical costs go up it can expect to collect higher premiums to cover such bills. Being rather monopolistic in the field, it does not have to fear the loss of business because of the rising premiums. Many of these premiums have to rise, but when they do, so do the commissions resulting therefrom. Even where such organizations are nonprofit in their legal orientation, the Federal Party is still well aware that there is nothing more profitable to the insiders than a non-profit corporation.

It seems to us that the use of political muscle by pressure groups to prevent reforms of the Social Security program is a highly subjective procedure at best, forcing the pressure inside the kettle to go up and when the lid finally does blow off it will seem that Pandora may have had only a lovely music box after all; to use thoroughly mixed metaphors.

STATEMENT OF THE FEDERATION OF PROTESTANT WELFARE AGENCIES, JOYCE PHILLIPS AUSTIN, EXECUTIVE VICE PRESIDENT

The Federation of Protestant Welfare Agencies, the only Federation of Protestant and nonsectarian human services agencies in the nation, is a planning, consulting and coordinating body of 275 member agencies in the New York metropolitan area. The Federation and its member agencies annually serve more than one million needful people of all ages, races and faiths.

The Federation has a longstanding interest in the Social Security system and welcomes this opportunity to present our views on Social Security and the recommendations put forth by the National Commission on Social Security Reform. We believe that the Social Security system is of crucial importance to millions of elderly Americans and other beneficiaries, as well as to those additional millions who will receive benefits in the future. Moreover, we hold that Social Security benefits are based on a relationship of trust between the government and the American people. It is of paramount importance that this trust be maintained. Consequently, the soundness of the system must be assured.

The Federation has a special concern for the less fortunate, and believes that any changes in the Social Security system should be based on the principle of giving priority to protecting the poor and the near-poor. It is precisely such individuals who are most dependent on Social Security benefits. Any effort to maintain the viability of the system must be premised on a recognition of this dependence.

It is for this reason that Federation, with one important exception, endorses the recommendations made by the National Commission on Social Security Reform. The recommendations ensure the survival of the Social Security system and insure that those most dependent on Social Security benefits can survive. We urge the Committee, in evaluating the Commission's proposals, to avoid making any changes which would impose burdens on those incapable of making additional sacrifices.

The Federation is particularly pleased with the Commission's proposal to bring newly hired Federal employees and the employees of not-for-profit organizations into the system. As advocates of universal Social Security for all Americans, we view this recommendation as an important step toward that goal. In addition, these new members will provide the Social Security system with needed revenue.

We have never endorsed the concept of taxing Social Security benefits. But we believe that if taxing benefits is necessary to maintain the soundness of the Social Security system, an approach should be developed which both takes into account the total income of a recipient and which protects beneficiaries with the lowest incomes. The Commission's recommendation for taxing the benefit of individual recipients with annual incomes of $20,000 or more, and of couples with incomes of $25,000 or more per year, fits both criteria. Again we urge the Committee, when reviewing this proposal, not to make any changes which require taxing the benefits of those unable to cope with a loss of income.

It is with this last point in mind that the Federation would like to recommend an important and, we believe, humane change in the Commission's recommendation regarding the six-month delay in cost-of-living adjustments. The proposed delay is, in actuality, a reduction in benefits. The Commission, in recognition of this fact, has provided for the needs of the very poor with an increase in SSI benefits. This approach is laudatory but insufficient. Those with oncomes just above the SSI eligibility level will suffer an income loss which will be extremely difficult to absorb. This Committee should fashion a mechanism to ensure that this "near-poor" population is protected from financial detriment.

Our final recommendation is not related to the Commission's recommendations. However, because Congress is contemplating so many changes in the Social Security system, we believe that this is an excellent time to make a much-needed additional modification. The Federation recommends that the composition of the Advisory Council on Social Security be altered to more fully reflect that of the general population. The Council presently lacks adequate representation from senior citizen and consumer groups and the public would benefit from their inclusion. Moreover, the Council needs to be more watchful and should advise more carefully on the prudent handling of Social Security funds, so as to maximize investment income coming into the system. Broadening the composition of the Council's membership would do much to effectuate that purpose.

In conclusion, we would like to make one final point. The Federation believes that Congress has a responsibility to insure the long-term solvency and stability of the Social Security system. The Commission has acknowledged that its proposals do not address this issue. It is unwise to allow the Social Security system merely to reel from crisis to crisis. Such a policy serves only to weaken public trust in the system and ultimately to undermine the public's belief in the ability of government to provide for their security.

The implementation of additional measures needed to preserve the Social Security system through the next century should be prefaced by broad public discussion, and should be phased in gradually, with adequate notice to all those affected. This process should commence as speedily as possible.

Thank you for the opportunity to present testimony.

STATEMENT OF ROBERT W. MOORE, FINANCIAL EXECUTIVES INSTITUTE

Good afternoon, Mr. Chairman. My name is Robert W. Moore and I am President of Financial Executives Institute. I want to thank this Subcommittee for the opportunity to testify on a financial issue of national concern.

Financial Executives Institute (FEI) is a professional organization of individual members who are senior financial and administrative officers in business organizations throughout the United States and Canada. FEI has over 12,000 members who are affiliated with some 5,000 companies in virtually all segments of the economy and who, therefore, represent a broad cross-section of American business.

Members of our Committee on Employee Benefits have studied the problems of the Social Security System, both short- and long-term, particularly the short-term cash shortages of the Old Age, Survivor and Disability Insurance Funds (OASDI), over the past several years. They have also been involved in studies of the Employee Retirement Income Security Act (ERISA), the Economic Recovery Tax Act (ERTA), and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). As part of these efforts, we have made suggestions to Congress in the spirit of cooperation as technical experts. More recently, we wrote to the National Commission on Social Security Reform, suggesting a method which would preserve basic financing concepts, as well as provide the system with fiscal stability. Mr. Chairman, a copy of that letter to the Commission is included as an appendix to this testimony and should be made part of the record.

Since our members have spent a great deal of time studying the problems of the Social Security System and its current funding problems in an attempt to develop an equitable solution, we feel we are in a position to judge fairly both the scope of the task which the Commission was confronted with, as well as the merits of their proposed solution. It is our opinion that the Commission has created a thoughtful compromise which will correct the current financing deficiencies of the system. We believe the Commission was presented with a set of almost insurmountable political and technical problems, yet managed to emerge with an equitable compromise. We especially commend the Commission's acceptance of the fact that the burden of corrective action must be shared between beneficiaries of the Social Security System and taxpayers. One of the strengths of the Social Security System has historically been the bond between generations created by the financing of the system, through payroll taxes of the working generation while providing a foundation for the reasonable income needs of those who have retired from the work force. Those who believe, as we do, that the Social Security System is a vital aspect of American life must recognize the need for sacrifice.

Essentially, FEI believes that the problems of the Social Security System should be solved within the bounds of the system, without changing its fundamental character, and without infringing on the area outside the charter of the system. We believe that the short-term cash flow problems of Social Security can be contained without doing harm either to the generational transfer of wealth, which is the bedrock of the Social Security program, or to the concept of payroll financing, which preserves the financial integrity of the system. The linkage between Social Security benefits and payroll taxes is important, and this link should remain the most important stabilizer for the System.

As an organization, we have discouraged the use of general revenues to finance the Social Security System. Although we understand their inclusion as one-time crisis intervention measures needed now, we do not believe this type of financing should continue to be used in the future. The one exception is the Commission's proposal to tax one-half of Social Security benefits for recipients with total income above certain levels. While some have characterized it as a use of general revenues, we believe Congress can alleviate these concerns if the legislation enacted includes appropriate controls. For example, proposed legislation could clearly provide that all tax revenues raised in this way be promptly remitted to the Social Security Trust Funds under a permanent appropriation. Use of the income tax system in this manner would not be at variance with our concepts for financing the Social Security System.

We believe the National Commission on Social Security Reform has developed a worthwhile context for handling the Social Security short-term financing problem yet, by consent of the members signing the compromise, two areas were left open to further debate. We would like to discuss one of these areas and recommend a modification that we believe would enhance the financial stability of the OASDI system.

Our suggestion is designed to further enhance the stabilizer suggested by the Commission. We recommend the use of a self-correcting mechanism which would correlate the funding needs of the Social Security System to national economic conditions at any given time. Our proposed stabilizer would provide for an annual adjustment to both the COLA increase and the payroll tax rates if the finances of the OASDI System deteriorate again. We agree with the Commission's recommendation to adopt a stabilizer with a 20 percent reserve trigger point, and suggest it be strengthened by adjusting both the tax rates and the annual COLA to ensure the continued liquidity of the system.

A simplified outline of this formula would be as follows: in 1988 and thereafter, if the Social Security trust fund falls below a 20-percent ratio, the COLA would become the lower of CPI or wages (as the Commission proposed) minus an additional adjustment of one percentage point. At the same time, the combined employer-employee tax rate would be increased over the prior year's rate by two-tenths of a percent (0.2 percent) with half to be paid by employees and half by employers. This formula would provide for similar annual adjustments until the needed infusion of funds to keep the Social Security System solvent and restore reserves to at least 20 percent occurred. This process would continue to spread the burden equitably between taxpayers and beneficiaries.

In a manner suggested by the National Commisison, when the trust fund reaches a 32-percent ratio, an orderly refund of accelerated taxes and COLA reductions should be made. For as long as reserves remain above the 32-percent threshold, the annual adjustment would be reversed by increasing the COLA by one percentage point and reducing the combined OASDI payroll tax rate by two tenths of a percent (0.2 percent). Thus, this type of fail-safe mechanism would guarantee stability with temporary loans, in effect, from be[illegible]ies and taxpayers in roughly equal amounts.

While the formula we recommend [illegible] more complex than the Commission's proposal, it is nonetheless work[illegible] calculation as to whether or not the fail-safe formula was triggered [illegible] at least six months before the need to begin withholding FICA ta[illegible] and [illegible] cost of living adjustments. One of the virtues of this proposal is that it [illegible]ify the formula for scheduled benefits, but merely adjusts yearly cost [illegible]ses; and it adds needed flexibility to the tax schedule in the event [illegible]ission's assumptions are found to be too pessimistic.

In conclusion, we commend the Commission for its bi-partisan efforts and urge the Congress to act in a timely fashion to secure the future of Social Security. We believe our suggestion supplements the Commission proposals, and that it is consistent with the concept of sharing the burden for preserving the Social Security System between the taxpayer and the beneficiary in an equitable way.

APPENDIX A—LETTER TO MR. ALAN GREENSPAN, CHAIRMAN OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM AND "PROPOSAL TO CORRECT SHORT-TERM FINANCIAL PROBLEMS OF THE SOCIAL SECURITY SYSTEM"

FINANCIAL EXECUTIVES INSTITUTE,
New York, N.Y., October 26, 1982.

Mr. ALAN GREENSPAN,
Chairman, National Commission on Social Security Reform,
Washington, D.C.

DEAR MR. GREENSPAN: The Financial Executives Institute* is deeply concerned about the problems of the Social Security system, both short and long term—particularly the Old Age and Disability Insurance Funds (OASDI). Recent discussion in the press concerning the near-term cash short-fall appears to have concentrated on a payroll tax increase as the only practical solution.

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*Financial Executives Institute is the professional association of 12,000 senior financial and administrative officers of over 6,000 organizations, large and small, throughout the United States and Canada.

In lieu of such tax increase, our Employee Benefits Committee has developed a proposal which we believe is worthy of consideration by the Commission. The proposal is not intended to address all the problems of the OASDI Funds but rather is designed to correct the near-term cash short-fall problem and to restore a modest reserve over the next several years.

This proposal does not address the problems which will result from long-term demographic shifts projected to impact the system beginning in the 21st century. It would, however, restore liquidity to the OASDI Funds and maintain the basic financing concepts of the Social Security program; namely, to be solely financed by payroll taxes (no use of general revenues), and continued parity between employees and their employers in sharing the tax burden. We consider these basic financing concepts to be fundamental to a sound ongoing Social Security system.

The immediate liquidity problem results in large measure from the unusual economic volatility of recent years—particularly the CPI escalator raising benefits faster than increasing wages raised the tax revenues of the system. Accordingly, we believe the financial solution to this immediate problem should be borne partially by the beneficiaries and partially by the taxpayers. Our proposal provides a mechanism for this rough equity to occur and for modest levels of reserves to be built over the next few years.

The second part of our proposal provides a self-correcting mechanism, whereby, once modest reserves are developed, they can be maintained regardless of short-term economic volatility—merely by raising or lowering the tax rates as needed to maintain liquidity with modest reserves.

This type of solution to the immediate problems of the system would provide time for more detailed consideration of the long-term problems facing the Social Security system. These problems need to be addressed and significant modifications may have to be made in order to maintain system solvency in the 21st century. We believe adoption of a proposal such as ours will give your Commission and others more time to carefully study these serious long-term problems.

Attached is a description of our proposal together with a projection of how it could work using the Trustees' intermediate II-B assumptions over the next 10 years. It is important to note that such projection indicates that liquidity can be restored to the system under our proposal with tax rates only slightly higher than those in the present law during most of the 1980s—and in 1990 and thereafter, with tax rates significantly lower than those now mandated.

We suggest that any action along the lines of our proposal have a 10 year sunset provision so that it can be reviewed to ensure that it is meeting the needs of the system.

The attached proposal is only a skeleton outline of a concept—even though it is the carefully thought-out product of many months of work by our Employee Benefits Committee. More work will have to be done on the details by those more experienced with the operation of the OASDI system. For example, as indicated above, our proposed concept has been tested against only one set of economic assumptions. Accordingly, we would welcome the opportunity to discuss this matter in more detail with the Commission and its staff at your convenience.

Very truly yours,

R. W. MOORE.

Attachment.

FINANCIAL EXECUTIVES INSTITUTE: PROPOSAL TO CORRECT SHORT-TERM FINANCIAL PROBLEMS OF THE SOCIAL SECURITY SYSTEM

The Old Age and Survivors (OASI) and Disability Insurance (DI) Funds of the social security system are insolvent; only temporary inter-fund borrowing from the Hospital Insurance Fund (HI) allows it to continue to pay monthly benefits through June 1983. In the absence of legislative action, the trust funds will be unable to honor their checks in July 1983.

In the face of mounting evidence that the American people are losing faith in the ability of the social security system to survive as the mainstay of our national retirement income system, some equitable solution to the serious short-term financial crisis must be developed on a bi-partisan basis.

Social security is essentially a pay-as-you-go system with benefits to current beneficiaries financed by the current payroll tax revenues. Recent volatility of the economy—principally the high inflation rate causing significant cost-of-living adjustments (COLA) for beneficiaries—have all but eliminated the cash reserves of the Funds. Thus, there are projected short-fall of revenues to finance the OASDI funds; reserves are now less than two months' benefits.

FEI continues to believe that the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) funds should be exclusively financed by payroll taxes; general tax revenues should not be used. We also believe that parity in payroll taxes borne equally by employees and their employers should continue.

We believe the solution to the present insolvency should be financed equitably between the taxpayers and the beneficiaries of the OASDI funds. We have developed a proposal which not only corrects for the present insolvency but also self-adjusts to solve any future financial short-falls resulting from volatility in the economy. This proposal would also self-adjust in the opposite direction; when reserves recover to an adequate level, tax rates would be reduced.

The result of implementing such a proposal would have modest impact on each individual. The monthly impact on the average beneficiary would be about $8.12 in the first year. The tax increase would be about $5.40 per month for each employee earning the statutory maximum and his employer. Yet these modest amounts would provide solvency of the OASDI trust funds for the remainder of the 20th century; no further legislative action would be required.

This proposal does not envision corrective action sufficient to solve problems resulting from major demographic shifts that will occur in the 21st century. These types of corrections need to be carefully thought out with sufficient study and research. In fact, we propose the automatic adjustment procedure have a 10-year sunset provision so its effectiveness can be measured and maintained only if appropriate.

Nor does this recommendation address the very significant deficits projected for the Hospital Insurance fund beginning in 1987.

Specifically, this proposal would make very limited automatic annual adjustments in both the payroll tax rate and the COLA increase, either upward or downward depending on the state of the trust fund reserves.[1] If reserves were below 25 percent of annual benefit payments (approximately three months' reserves) then the combined payroll tax would be increased by 0.2 percent (an individual employee's tax rate would be increased by 0.1 percent and matched by the employer) and the next annual COLA increase would be reduced by two percentage points of the COLA otherwise payable (if 10 percent was the scheduled COLA, then 8 percent would be added). The aggregate dollar impact of these two factors is roughly equal. We also propose the effective date for the annual COLA be changed to the September benefit checks beginning in 1983. These tax rates, as self-adjusted annually, would supercede presently legislated tax rates.

And this automatic feature also self-corrects when the trust funds reach a solvent position some time in the late 1980's. At that time, the tax rates would reverse by lowering taxes annually by 0.2 percent. Such annual adjustments would continue as long as the reserve ratio stayed above the 25 percent level, but never be permitted to fall below 1982 tax rates.

DETAILED EXPLANATION AND PROJECTION

The attached projection develops the impact of applying the FEI proposal by automatic annual adjustment to both the combined OASDI payroll tax rate and the annual cost-of-living adjustment of benefits (COLA). The annual automatic adjustment is triggered by the level of reserves. When the reserve ratio as of any June 30 is below 25 percent,[2] the combined OASDI tax rate is increased the next January 1 by 0.2 percent and the next scheduled COLA is reduced by 2 percentage points (a scheduled 10 percent increase would be paid at 8 percent). Initial adjustments would be the 1983 COLA and January 1, 1984 for the tax rates. We further propose the timing of the annual COLA be reflected in September benefit payments (paid in early October).

When the reserve ratio exceeds 25 percent, then the automatic annual adjustment of the tax rate would reverse and be reduced by 0.2 percent. Such adjustments would continue until any post-1982 adjustments had been reversed.

Based on the average individual monthly benefit of $406, an annual COLA reduction of 2 percentage points would amount to $8.12 each month in the first year. Equivalent adjustments would be made for any subsequent years for which the adjustment procedure is effective.

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[1] If the reserve ratio is lower than 8.3 percent of annual payments (one month's reserve), then inter-fund borrowing from the Hospital Insurance Fund (HI) would be permitted.

[2] The reserve ratio would be calculated by dividing net assets of the OASDI trust funds as of June 30 by the disbursements for the preceding 12 months adjusted as if the immediate COLA had been implemented for all of those 12 months.

Based on an employee whose annual earnings were equal to the maximum taxable wage (presently $32,400), the increase in the combined tax rate of 0.2 percent would amount to $5.40 per month.

As shown on the attached projection, the combined OASDI tax rate would advance from the present level of 10.8 percent in annual increments to a high in 1988 of 11.8 percent. It would then remain below the level that is presently legislated for 1990.

The annual COLA increase for beneficiaries would likewise be reduced until 1988 at the rate of two percentage points each year.

Borrowing from the HI fund would be necessary until 1984; such borrowing would be fully repaid by 1986.

The cash reserves held by the system would increase throughout the period of this projection reaching over 70 percent of annual disbursements at the end of fiscal 1992 (a reserve of over 8 months of benefit payments).

ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS

Fiscal Years Ended September 30 ($ Amounts in billions)
(Using 1982 Trustees Report II-B Assumptions)

Fiscal year	(2) Income	Borrowing from HI Fund		(2) Disburse-ments	Net change in funds	End of Year		Combined OASDI tax rate		CPI benefit adjustment	
		Current Year	Cumulative			Assets	Reserve Ratio	Present Law	Pro-posed	Present Law (2)	Proposed
1982	$148.4	--	--	$156.6	-$8.2	$19.1	12.2%	10.8%	10.8%	7.4%	7.4%
1983	160.1	$6.1	$6.1	168.1	- 1.9	17.1	10.2	10.8	10.8	7.5	5.5
1984	178.8	2.0	8.1	181.5	- 0.7	16.4	9.0	10.8	11.0	7.7	5.7
1985	198.9	--	8.1	196.8	+ 2.1	18.5	9.4	11.4	11.2	6.9	4.9
1986	220.8	(8.1) (1)	--	211.3	+ 1.4	19.9 (1)	9.4 (1)	11.4	11.4	6.1	4.1
1987	244.0	--	--	225.7	+ 18.3	38.2	16.9	11.4	11.6	5.6	3.6
1988	271.2	--	--	240.0	+ 31.2	69.4	28.9	11.4	11.8	5.4	3.4
1989	292.1	--	--	249.8	+ 42.3	111.7	44.7	11.4	11.6	5.1	5.1
1990	310.7	--	--	269.6	+ 41.1	152.8	56.6	12.4	11.4	4.7	4.7
1991	328.5	--	--	289.9	+ 38.6	191.4	66.0	12.4	11.2	4.2	4.2
1992	343.6	--	--	310.3	+ 33.3	224.7	72.4	12.4	11.0	4.0	4.0

(1) The build-up in the OASDI assets from 1987 forward could be adversely affected through continued inter-fund borrowing since the HI fund is expected to reach a deficit position in 1987 and continue to accrue deficits throughout current projections periods.

(2) Amounts developed using 1982 Trustees' Report II-B assumptions

STATEMENT OF ALAN P. DYE, ON BEHALF OF FREE CONGRESS RESEARCH AND EDUCATION FOUNDATION

SUMMARY

The Free Congress Research and Education Foundation opposes the National Commission's recommendation that Social Security coverage be extended to all nonprofit employees for two reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both state and local employees and federal employees. Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs. In lieu of this recommendation, the Free Congress Research and Education Foundation asks that nonprofit organizations presently not in the Social Security system be allowed to remain out of the system, or, failing that, that Social Security coverage be extended only to newly hired nonprofit employees.

STATEMENT

My name is Alan P. Dye and I am a partner with the Washington, D.C. law firm of Webster, Chamberlain & Bean. This firm is general counsel to the Free Congress Research and Education Foundation (FCREF).

FCREF is a Section 501(c)(3) nonprofit educational and research organization headquartered in Washington, D.C. FCREF conducts research on public policy matters, publishes educational materials on the results of its research, and conducts lectures, forums and seminars on public policy matters. FCREF employs approximately 40 people on its staff.

I am making this statement on behalf of FCREF in regard to the National Commission's recommendation that Social Security coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations. This recommendation, if adopted by the Congress, would affect approximately one million nonprofit employees not presently covered by the Social Security system.

FCREF is opposed to this recommendation of the National Commission because it unfairly and without justification discriminates against nonprofit employees as compared to both state and local employees and federal employees. FCREF is not opposed to the extension of Social Security coverage to nonprofit employees in principle, but believes that nonprofit employees have been unfairly singled out for the most abrupt and drastic change in coverage. In short, RCREF believes that the extension of Social Security coverage to presently uncovered sectors of the labor force should be done on a fair and equal basis.

With respect to state and local employees, the National Commission's recommendations would allow state and local governments which never elected to join the Social Security system or which have withdrawn from the system to remain out of the system. In contrast, nonprofit organizations which never elected to join the system or which have opted out will be required to return to the system and immediately cover all their employees on January 1, 1984.

With respect to federal employees, the National Commission's recommendations would extend Social Security coverage only to federal employees newly hired on or after January 1, 1984, but would require nonprofit organizations to extend Social Security coverage to all of their employees on that date.

FCREF believes that fundamental fairness requires that nonprofit employees should be accorded the same and equal treatment as state and local employees or, at the very least, as federal employees. The National Commission has, in effect, recommended that the status quo with respect to state and local employees be preserved on a group basis at the employer level and that the status quo with respect to federal employees be preserved on an individual employee basis. Yet with respect to nonprofit employees, the National Commission has recommended that the status quo be destroyed for all nonprofit employees. FCREF cannot perceive, and the National Commission certainly has not articulated, any reason for this disparate treatment of nonprofit employees.

In fact, whatever may be the reasons for phasing in coverage of federal employees and for allowing nonparticipating state and local governments to remain out of the system, there are equally good reasons for extending the same treatment to nonprofit employees. Many nonprofit organizations which are not in the Social Security system have provided alternatives to Social Security with which their employees are much happier. Adoption of the National Commission's recommendation would cause greatly increased payroll costs for these nonprofit organizations. These large increases in payroll costs would force these nonprofit organizations to drastically reduce or even eliminate current employee benefit programs and would, as a result, destroy legitimate employee expectations and engender serious employee dissatisfaction.

FCREF provides a qualified pension plan to its employees at a cost lower than that of Social Security coverage. Implementation of the recommendations of the National Commission on Social Security Reform will have a devastating effect upon FCREF by creating transitional problems and imposing higher retirement plan costs amounting to a large proportion of FCREF's gross receipts. Adoption of the National Commission's recommendations will also diminish the scope and extent of FCREF's research and educational programs because of the additional financial burden imposed on FCREF.

In conclusion, FCREF opposes the National Commission's recommendation on the extension of Social Security coverage to all nonprofit employees. In lieu of this recommendation, FCREF suggests two alternative proposals. First, nonprofit organizations which are not in the Social Security system, like nonparticipating state and local governments, should be allowed to remain out of the system. Failing that, Social Security coverage should, at the very least, be extended only to newly hired nonprofit employees in a manner consistent with the treatment of federal employees.

STATEMENT OF DONALD L. GRUMMON, EAST LANSING, MICH.

Serious flaws exist in the President's Commission proposal to tax the social security benefits of those retired persons with adjusted gross incomes beyond social security of $20,000 single or $25,000 married. Facts about the proposal analyzed below are taken from the New York Times and an Associated Press article by C. Connel both dated January 17, 1983 and from the January 24 issue of Newsweek.

1. Of the 152 million Americans directly involved financially in the Commission's overall proposals, four million Americans (2.6 percent) are singled out to contribute something more than 8 times as much as the average person will contribute.

The Commission asks for 168.7 billion in gains over the next seven years (1983–89). Of this amount, four million persons, or 2.6 percent, with retirement incomes of over $20,000 single or $25,000 married are asked to contribute 30 billion or 18 percent of the total. Newsweek says the average yearly contribution of the 152 million American workers and social security recipients involved in the Commission's plan, is $159 (168.7 billion divided by 152 million equals $1,110 divided by 7 years equals $158.55). But by paying taxes on their benefits, these four million retirees are asked to contribute $1,071 per year, or more than six and one-half times that asked of the average person. (30 billion divided by 4 million equals $7,500 divided by 7 years equals $1,071. $1,071 divided by 159 equals 6.74).

This contribution alone is unfair, but even more is asked. This group of four million forms a part of the 36 million social security beneficiaries asked to contribute another 40 billion (24 percent of the total) by delaying their cost of living adjustment for six months. This adds an additional $159 per year to the $1,071 for a total of $1,230 per year which now becomes more than 7½ times that asked by others involved. (40 billion divided by 36 million equals $1,111 divided by 7 years equals $159 plus $1,071 equals $1,230; $1,230 divided by $159 equals 7.7.)

Beyond these two main contributions, these four million persons contribute in still other ways to the $159 yearly average asked of the 152 million Americans. Because of their income levels, these people are substantial tax payers in retirement, and many billions in the gains called for by the Commission will come directly from the U.S. Treasury. Although exact dollar amounts cannot be calculated from the data at hand, the regular income taxes of these four million, along with taxes of other Americans, will contribute to the following Commission proposals:

a. 18 billion (11 percent) the Treasury will pay to the Trust Fund for the military's social security obligations.

b. Loss to the Treasury resulting from the income deductions allowed in the first year to all persons paying the proposed accelerated social security taxes. (This is substantially less than one-seventh of 40 billion.)

c. Undetermined costs to the Treasury resulting from shifting new Federal employees to social security.

d. Loss to the Treasury resulting from allowing business income deductions by the self employed on half their social security taxes.

All must contribute to the solution of the present problem, but I submit the asked-for contribution of these four million people is grossly out of proportion and is unfair. This part of the proposal needs careful examination and wide discussion before Congress makes it the law of the land. No other group comes close to the contribution asked of these four million people, including the six and one half million self employed who will contribute 18 billion or $396 per year (really considerably less since these individuals can deduct one-half their contribution as a business expense thus lowering their income tax).

2. No mention has been made of indexing the $20,000 and $25,000 which triggers income taxes on half of the social security benefits. With continued inflation (a near certainty), lack of indexing means, in terms of real dollars, that the triggering amounts will become lower and lower over the years until most beneficiaries will pay income taxes on their social security benefits.

I have no crystal ball to tell me what inflation will be in the years ahead, but as reasonable a guess as any is to project the experience of the past 15 years into the next 15 years (although some would object that this fails to take account of the accelerated rate of inflation over the past 15 years). But using the conservative straight line assumption, I find that 15 years from now, in 1997, paying taxes on social security benefits will be required by all retirees earning $6,760 or $8,450 married, expressed in 1982 dollars. To wit:

a. October 1982 CPI equals 294.1 (Lansing State Journal, January 1983) with 1967 equals 100. This is equal to 7½ percent annual inflation rate since 1967 (1.075^{15} equals 2.96 times 100 equals 296 which is close enough).

b. The reciprocal (1/x) of 2.96 is .338 which at the assumed inflation rate can be used to convert 1997 dollars into 1982 dollars.

c. Thus, we find: 20,000 1982 dollars equals 59,200 1997 dollars; 25,000 1982 dollars equals 74,000 1997 dollars; 20,000 1997 dollars equals 6,760 1982 dollars; 25,000 1997 dollars equals 8,450 1982 dollars.

Proof: $20,000 times .338 equals $6,760; $6,760 times 2.96 equals $20,010; $20,000 times 2.96 equals $25,000 times .338 equals $8,450; $8,450 times 2.96 equals $25,012; $25,000 times 2.96 equals $74,000.

Clearly, the dollar income that triggers taxes on social security payments must be indexed (and some half-hearted indexing will not do) unless it is the intent of the Commission and Congress to shift gradually over time nearly all retirees to paying income taxes on their benefits. Some may argue that indexing is not necessary because inflation is under control; if, by chance, they are correct, indexing can do no harm; if they are wrong, indexing is essential to preserve the system as we now know it.

Need I remind the reader that the Commission's proposal is a long range plan that is apt to be in place for many years.

3. The announced triggering plan for paying taxes on benefits contains the absurdity that a retired couple with a pension income under $25,000 could end up with a higher after-tax income than a couple with a pension income over $25,000.

Let me illustrate. For simplicity, please assume a 30 percent income tax rate and a social security income of $10,000.

	Couple A	Couple B
Pension income	$25,001	$24,999
Plus ½ of social security	5,000	NA
Total taxable income	30,001	24,999
Minus 30 percent income tax	−9,000	−7,500
Subtotal	21,001	17,499
Plus remainder of social security as applicable	+5,000	+10,000
Total income after taxes	26,001	27,499
Difference		1,498

4. Some Miscellaneous Concerns: There are many other issues in the Commission's proposal, some of which I will touch on briefly.

a. Some people defer current spending to save money for retirement while others do not. The proposed plan penalizes saving for retirement which is contrary to stated national policy as I have understood it. To wit: Social security was never intended to meet all a persons retirement needs and Americans have been encourages to supplement their social security with savings. To wit: Savings in general have been encouraged, particularly in these times of unemployment, because of the need for business investment and the creation of jobs.

b. Many persons have emphasized that taxing social security benefits introduced a financial means test which, among other things, tends to change social security into a welfare program.

c. Taxing social security benefits is like letting the camel get its nose into the tent. What is the rationale for taxing only half the benefits? Why not 25%, or 75%? What is the rationale for triggering incomes of $20,000 and $25,000? Why not $10,000, or $5,000, or $40,000? We have a serious current problem, and this proposal is one way of getting needed money. But this will not be the last time we have a problem, and we are setting a precedent that will guide social security for many years to come.

d. Commission members have said we should tax benefits of middle and upper income persons because "they can afford it." Who is to say what others can afford? People's wants and needs differ, which is one reason some people save for retirement while others do not. Of course, if by "afford it" we mean the basics of food and shelter, the proposed means test is reasonable; but so would it be reasonable to use a means test of $10,000, or maybe $5,000 beyond Social Security benefits. This matter is endlessly complicated. Travel is important to some while staying down on the farm is important to others. Some people own their homesteads while others have sold them and are using the income from the sale to pay rent in warmer climates. Beauty shop appointments are highly valued by some and not by others. And so on. What one thinks he or she needs in retirement is largely determined by what he or she was used to before retirement. Most people in retirement hope to maintain as much as possible their pre-retirement standard of living. I suspect those who say the middle and upper income retirees "can afford it" believe, deep down, that retired people are not entitled to the same standard of living they previously enjoyed—a bias against the elderly that is too widely held in this country.

If ability to pay is the criterion, why single out these four million? Why not pay social security taxe on all earnings, even if one earns several million dollars each year. And by all means, include investment income; there is nothing sacred about payroll taxes if we are seeking out ability to pay. Why not impose a special surtax on incomes over $100,000 annually? Or put a special tax on autos costing over $10,000 or on vacation homes in upper Michigan?

No, this will not do. But if we wish to emphasize ability to pay (and perhaps we should), we already have in place a reasonably rational system in our graduated income tax system. This system, rather than singling out just one group as being able "to afford it," increases the tax bite as income increases, and thus, it avoids most of the troubling questions raised above. We might wish to adapt the system for retirees by starting the usual income tax system on combined social security and other income of, say, over $5,000 or perhaps over $10,000. Such a system, which is not yet carefully analyzed, seems infinitely more fair that the Commission's proposal.

e. The system of double taxation has been widely objected to. That is, to many it seems unfair to first tax the income used to pay social security taxes and then to tax later the benefits of the payout period. This reasoning has some validity but it is far less cogent in my view than the fairness issue rised by singling out one small group.

f. Finally, if we must tax benefits (and I hope we do not), we need something like the new marriage income tax deduction for two income marriage/retirements where both husband and wife have worked, where both have paid social security taxes and both are now receiving social security benefits, where both have saved money to increase their joint retirement income, etc. Not to do so (and to leave the Commission's proposal as is) will introduce another example of anti-family bias and sexism into the social security system which has been one of the difficult problems of the system for many years now. Let us not make the same mistake a second time.

WASHINGTON, D.C., *February 14, 1983.*

Att: Mr. JOHN SALMON;

These are my views on social security for the record.

I am very much opposed to having the Federal Government Employees retirement system go under Social Security. The government will ruin that system just as they have ruined Social Security by misusing it and giving it away.

ELIZABETH M. HAINKE.

ARLINGTON, VA., *February 2, 1983.*

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

(Attention: John J. Salmon, Esq., Chief Counsel).

DEAR MR. CHAIRMAN: In accordance with your Committee's Press Release #1, January 6, 1983, I hereby submit to the Committee six copies of this letter and the attached one-page summary of my objections to the proposal to levy an income tax on certain Social Security benefits.

Please have both this letter and the one-page attachment thereto included in the formal record of the hearings and the printed transcript thereof.

In accordance with the requirements set forth in the press release, I hereby state for the record that my letter and the attachment thereto are submitted to your Committee solely in my capacity as an individual taxpayer, and that I represent no clients, no other person, and no organization.

I am confidant that millions of other taxpayers share my distaste for this iniquitous legislative proposal.

Although a statement of interest is not required by the terms of the press release, I want to state also for the record that I would be directly, adversely, and almost immediately affected were the subject proposal to be enacted:

(1) I will be eligible to receive Social security benefits starting in April 1984, and

(2) My wife and I (who file jointly) presently suffer an adjusted gross income in excess of the proposed "base amount" of $25,000 for married couples (CF. S. 1, 98th Cong., 1st Sess. (Jan. 26, 1983), Sec. 302, amending the Internal Revenue Code of 1954 by adding new Sec. 86), and presently intend neither to get divorced prior to the close of any taxable year (id., new I.R.C. Sec. 86(b)(3)(A)), nor to live apart from each other at all times during any taxable year (id., new I.R.C. Sec. 86(b)(3)(B)).

Respectfully submitted,

RICHARD L. HIRSHBERG.

ARLINGTON, VA., *January 28, 1983.*

PROPOSED TAXATION OF SOCIAL SECURITY BENEFITS

The Report of the National Commission on Social Security Reform, issued January 15, 1983, asks the Congress to levy an income tax on 50 percent of all Social Security benefits received by anyone having an income of $20,000 or more per year ($25,000 for married couples).

Several compelling arguments against such a tax are presented in the Dissenting Views of Congressman Bill Archer, January 18, 1983. (See also, "Social Security's Non-Fix," editorial, Wall Street Journal, January 24, 1983.)

In addition to the views presented by Congressman Archer, this proposal (S. 1, Sec. 302, 1/25/83) is subject to the following objections:

(1) It is unfair and inequitable, because the affected taxpayers have contributed just as much to the retirement system as those lower-income persons whose benefits would be totally tax exempt. (Self-employed persons, in fact, have contributed 50% more than exempted employees contributed.)

(2) The proposal is a discriminatory, retroactive—and probably unconstitutional—confiscation of the vested property interests of affected taxpayers. Furthermore, it directly conflicts with the President's recent "important pledge to the American People: . . . no one's payments will be reduced" (State of the Union Message, January 25, 1983: emphasis added).

(3) The $20,000 income ceiling is arbitrary and unreasonable, making no allowance for cases where much more income might be required to maintain a decent standard of living (e.g., heavy medical expenses, support of aged parent).

(4) Contrary to the State of the Union Message's promise "to simplify the tax code," this provision would add new technicalities to the Internal Revenue Code. For example, in computing the $20,000 ceiling:

(a) Do you include tax-exempt municipal bond interest, the untaxed portion of capital gains, and "All Savers" interest?

(b) What about tax-deferred income, such as IRA and Keogh plan contributions and reinvested public utility company dividends?

(c) What about the untaxed portion of annuities?

(5) This proposal, if enacted, would be an open invitation to tax avoidance, tax evasion, and outright fraud. For example:

(a) A person subject to the $20,000 ceiling could set up a 10-year "Clifford Trust" for his children, with the tacit understanding that they would "kick back" portions of the income on request.

(b) A person could simply "give" income-producing property to his children, with the same understanding.

(c) A person could get the advantage of the exemption every other year simply by juggling income from one year to the next year.

(6) The proposal would give rise to many late-blooming divorces and extramarital living arrangements, in order to get the benefit of the full $40,000 ceiling for two persons (in lieu of $25,000 for married couples).

For the above reasons (and probably additional reasons will come out in the February hearings on S. 1, Sec. 302), the proposal to tax 50 percent of Social security benefits appears to be fatally flawed.

It is respectfully submitted that this provision has no legitimate place in the Internal Revenue Code, and should not be enacted.

RICHARD L. HIRSHBERG.

STATEMENT OF PROF. JOHN HOSTETLER, WILLOW GROVE, PA.

Mr. Chairman. My name is John Hostetler. I reside at 2550 Ball Road, Willow Grove, Pa., 19090. Since 1965 I have been employed by Temple University, Philadelphia, Pa., where I hold a position as Professor of Sociology and Anthropology. During my active professional life I have conducted several federally-funded studies of religious subcultures (Mennonites, Amish and Hutterite) in North America.

My published findings relevant to my testimony include the following: Amish Society (Johns Hopkins University Press, 1963, 1968, and 1980), Hutterite Society (Johns Hopkins University Press, 1974), Educational Achievements and Life Styles in a Traditional Society, the Old Order Amish (U.S. Office of Education, Department of Health, Education, and Welfare, Project No. 6-1921, September 1969), and Children in Amish Society, coauthored with Gertrude E. Huntington (Holt Rinehart Winston, 1971).

Among the findings in my studies which support the proposed legislation outlined by Congressman Richard T. Schultze and Congressman Robert S. Walker are the following:

The Old Order Amish are old Americans. They originated during the Reformation period in Central Europe (c. 1525) and emigrated to America (c. 1727) prior to the American Revolution. They have survived in America as small, viable, and distinctive religious communities. By living in "redemptive communities" in relative isolation, practicing simplicity of life, industry, mutual aid the practical arts, and by moderating the influences of high technology, they have not been swept out by the "broom" of civilization.

The Amish are among the best farmers in the Western hemisphere. They have enjoyed the religious toleration of American life and are profoundly grateful for religious freedom. Nevertheless their community life is precarious in the modern world where laws and regulations are made for the industrialized segment of our economy. The Amish way of life could be wiped out by laws made to control high technological society.

For over forty years the Amish were harrassed by oppressive school laws which would eventually have destroyed their model communities. The U.S. Supreme Court upheld their school system in a landmark decision (Wisconsin v. Yoder, 1972) and restrained the states from forcing their young people to attend high school on grounds of the First and Fourth Amendments. The Amish do not believe in going to court to settle human conflict. They do not easily complain, nor do they have lobbyists.

The Amish are not a utopian society, but their communities all over this land (20 states) are models of neighborliness, stability, mutual aid in time of disaster, and sound environmental practices. These qualities are maintained by their devout religious teaching and living. Their communities are important mediating structures between "individualistic" private life and large growing bureaucracies (mega-structures) which are typically alienating. (Berger 1977:2). Laws which erode or wipe out the native forms of self-sufficiency among our American religious communities will threaten the future of our democracy. Mediating structures (strong communities, neighborhoods, family, church, and voluntary associations) are value-generating and value-maintaining agencies in our society. They are vital to American democracy. Public policy must recognize, respect, and protect these value-generating communities. They are the conservers in our American heritage.

Today, in our modernized technological society we are plagued by recurring dilemmas in real life—by the breaking up of family and community life. Neighborhoods and towns are losing cohesion as each individual looks out for his own private welfare. When every speck of life (including family life, education, personal connections, attractiveness, luck, profession and enjoyment) must be measured by money we feel morally impoverished. When laws are enacted which curtail religious freedom and when they cut short the creativity of self-sufficient religious communities, we are rendered less viable as a democratic society.

Mr. Chairman, I suggest that the implementation of the proposed legislation by Representatives Schulze and Walker is not ambiguous for the following reason. Amish offspring do not become members of the Amish religion by birthright. Amish religion requires a voluntary, free will, association by choice. Membership requirements include adult baptism and a life-time committment to the rules of community life. Those offspring (estimated at 10 to 12 per cent) who choose not to become members of the Amish faith readily assimilate. Members who are not fully committed to the Amish Ordnung (rules) or are unsure are refused baptism. There is no ambiguity about who is a member of the Amish faith community.

Thank you, Mr. Chairman.

FEBRUARY 10, 1983.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

GENTLEMEN: It was barely five years ago that the Committee on Ways and Means took actions that were hailed as securing the integrity of the social security system into the next century. Yet the Committee again sits to "save" a system that was paying out almost 20 percent more than it is taking in during the last few months of 1982. The National Commission on Social Security Reform has submitted a proposal that it claims will assure the solvency of the social security system for the remainder of this decade. This solution completely ignores the basic structural problems in the system in that it scarcely touches on the inequitable, ill-conceived COLA formula in the present law. The Commission's solution is a combination of tax increases on the working men and women of this country that amounts to almost 80 percent of the $169 billion package. We find this approach totally unacceptable and have little doubt that before this decade is over that your committee will once again be asked to shore up a failing system. We ask the Committee to fully face the problem from both sides of the equation—benefits and revenues—in a way that the President's Commission failed to do.

It is obvious where social security's funding problem has come from. Quite simply, benefit increases to recipients have far exceeded the amounts which the workers of this system can pay. Benefit increases to recipients have increased 228 percent in the last fifteen years. On the other hand, wage increases have advanced only 160 percent. The figures are even more revealing when one considers that social security benefits are tax-free or after-tax amounts. If wage increases are considered in equivalent terms (i.e., after-tax) benefit increases have increased two dollars for every dollar the average worker has brought home in take-home pay over the past fifteen years. This is the crux of social security's problem and until it is addressed, the system will continue to have shortfalls.

COLA increases in the future must be tied to increases in after-tax wages rather than to the consumer price index. It is simply a case of elementary mathematics. The system cannot remain solvent if it continues to allow benefit increases at a faster rate than the revenues that are needed to support the benefits.

Our specific recommendation is that social security benefits be frozen at present levels for 18 months (12 months longer than the Commission's recommendation) making the next COLA increase payable in January, 1985. The computation of that increase and future increases thereafter should then be calculated at 75 percent of the increase in wages over the preceding annual computation period ending with the third quarter of 1984. The 18 month freeze seems to us to be entirely reasonable in that just over the last four years benefit increases have outstripped wage increases by 10 percent. Such a freeze is necessary in order to restore some sort of parity between those who are supporting the sytem and those reaping the benefits. Capping future increases at 75 percent of the averge increase in wages will take into account the tax-free nature of social security benefits and let increases more closely track what the average worker is actually bringing home in take-home pay. The net result is that the social security recipient will do no better (or worse) than the average worker who is footing the tax bill.

We are certain that there will be those who decry such a proposal as heartless and uncaring. They will argue that such a proposal is unfair and will threaten to increase the number of those 65 or older fell below the proverty line. It is inevitable that people generally are not going to be as well off as they otherwise would have been. However, let's look at the facts in the proper perspective. The latest statistics from the Social Security Administration show that 15.1 percent of those 65 or older fell below the poverty line. This compares to 11.6 percent all ages. But in the past decade the number of senior citizens below the poverty line has fallen from 25.3 percent to 15.1 percent—a 40 percent decrease—while the decrease for the population as a whole has only been from 12.2 percent to 11.6 percent—a mere 5 percent decrease. These statistics point out that a disproportionate amount of our country's wealth has been transferred to social security recipients in the past 10 years.

We do not want to leave the impression that our purpose is to pit young versus old. We firmly believe that our parents and grandparents deserve the best retirement we can give them. The problem is they have been receiving more than we (or the country) can afford. It must stop now! They must share in the economy with us. Our proposal would allow them to share in the good times but suffer a little like the rest of us in the down times. It is the only fair solution. In fact, if these facts were presented rationally to our senior citizens we are confident that most would agree with the flaws in the present system. They do not wish to saddle their children and grandchildren with the enormous tax levels necessary to fund the system as presently structured.

Social security began as a social safety net that was designed to provide approximately 30 percent of a retiree's income needs upon retirement. Through constant political manipulations, this objective became lost over the years. Today, the average 65 year old retiree with a dependent spouse replaces through social security almost 75 percent of his final annual earnings while employed. In real terms, adjusted for inflation, his benefit is over 3 times what his father received when he retired in 1950. The social safety net has now entangled the entire country and threatens to strangle all of us as we attempt to escape the bath of red ink brought on by our past excesses.

In this country, we have to realize that we cannot have it all no matter how much we might want it or how right it may seem. This country has strived mightily to try to do what is right. We have tried to ensure that all of our people have decent shelter, health care and food. We have tried so hard that we have increased payments to individuals in our federal budget over 400 percent in real dollars (adjusted for inflation) over the past 20 years in an attempt to do what is civilized and right. And yet, despite this prodigious effort and with hundreds of billions of dollars being spent by government, we have seen very little improvement in the quality of life for those we have supposedly been trying to help.

The sad truth is, that despite the best of intentions, the people of this country can only benefit in the long run if we have real growth in our economy. We have not had that growth and yet we have tried to continue to be all things to all people. Ironically, our economy seems to be the biggest victim of our excesses.

Let's not blindly follow the mistakes of the past. Open your eyes and confront the cause of the problem directly rather than by following the quick-fix, band-aid approach that the National Commission on Social Security has proposed. Start by implementing the 18 month freeze and establishing a COLA formula based on after-tax increases. If projections still show that the system is facing a shortfall, then consider the tax increases that have been proposed, but not before. To do less will literally rob millions of working Americans of their hard-earned earnings to support a system that is doomed to die before they ever have the opportunity to share in it.

Sincerely yours,

GARY CATES (and others),
Individuals Rallying Against
Tax Excesses ("IRATE").

We are "IRATE"

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STATEMENT OF HOWARD YOUNG, SPECIAL CONSULTANT TO THE PRESIDENT, INTERNATIONAL UNION, UAW

We appreciate the opportunity to share with the Subcommittee on Social Security our views on financing problems of the Social Security System. We represent approximately a million and a half active and retired members of the UAW, who are keenly interested in preserving Social Security protections for themselves and their families against loss of income—whether by death, disability or old age.

BIPARTISAN AGREEMENT IN THE REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY

The UAW accepts the terms of the bipartisan agreement reached on January 15th as the best compromise agreement obtainable and enactable, given the present political and economic realities. We would not individually endorse some of the provisions of the consensus agreement (approved 12-3), but we urge passage of it as a package and will oppose efforts to block it or to add crippling amendments.

As with any compromise, all sides are not happy with all of its provisions. We find some aspects objectionable, but we do not regard these objections (serious though they are) as reason enough to reject the entire agreement. Just as in collective bargaining, both sides enter negotiations with strongly-held positions and are required (by political and economic conditions and the necessity of reaching agreement) to develop a workable compromise with which all parties can live.

Since others may be urging substantial change in the compromise, it is important for Congress to be aware of the portions of the package to which we would object if they were not part of the package.

(*1*) *Delay In Cost-of-Living Adjustments.*—Delaying COLAs for 6 months will impose hardship for lower-income retirees. The average monthly Social Security benefit for a retired worker was only $417 in September 1982. At a relatively low inflation rate of 5 percent, the postponement of COLAs would mean a loss of $20 per month in the last half of this year.

Two-thirds of aged beneficiaries rely on Social Security for more than one-half of their income; a fourth of those beneficiaries age 65 or older rely on Social Security for 90 percent of their income. Twenty dollars a month will be a heavy sacrifice for those who rely mainly on Social Security benefits to make ends meet. In addition, it should be clear that the NCSSR recommendation to shift the base period for COLA calculations from the first to the third quarter after this year (without recognizing the ongoing rate of inflation between those quarters) will not prevent ongoing real losses to retirees.

As a supplement to the compromise package, we urge a parallel delay in the effective dates for Medicare premium increases (now scheduled to go from $12.20 to $13.50 in July, 1983) in order to avoid an absolute decrease in benefit checks. The Medicare premium increase has been in July for that reason; i.e., to coincide with the COLA increase. We are not suggesting any general consideration of Medicare at this time. The NCSSR properly separated OASDI and HI, and limited itself to the former.

(*2*) *Heavy Reliance on the Payroll Tax.*—Social Security financing already relies too heavily on the regressive payroll tax. The UAW has argued for more progressive financing for Social Security for decades and we will continue to do so. The bipartisan agreement accelerates the schedule of payroll taxes already legislated in 1977, but the regressive effect of only one of the increase (1984) is offset with a refundable income tax credit. The present burden of Social Security financing is already too skewed toward workers alone and we would have preferred that all future increases (or even a larger fraction of the total payroll tax) be offset by refundable income tax credits. Employers already enjoy income tax deductions for their contributions to Social Security, the net effects of which are far greater than would be the case for workers under a permanent provision for partial refundable income tax credits. The 1984 credit is an essential aspect of the package. As Congress deliberates on the mechanics of this proposal for refundable income tax credits, we urge consideration of a method which does not postpone the adjustment until 1985, but instead incorporates the credit on an on-going basis as income taxes are withheld. Such a provision would be more fair to workers and would help maintain aggregate demand and aid economy recovery.

THE URGENT NEED FOR LEGISLATIVE REMEDIES

The health of our Social Security programs is a matter serious concern to almost every American: 116 million American workers and their families are protected by

Social Security; 36 million Americans receive cash benefits each month; 9 out of 10 workers are covered by Social Security, paying taxes, and earning future benefits; and Disability and Survivor Insurance protection is provided for the vast majority of workers, especially those with young children.

A decade of high inflation and high unemployment has taken its toll on Social Security finances. Reserves for the Old Age and Survivor Insurance Trust Fund (OASI) gradually deteriorated in the seventies and the Reagan recession has sharply aggravated the financing problems. The OASI funds borrowed from the Disability Insurance (DI) and Hospital Insurance (HI) funds to meet benefit obligations for retirees and their dependents and survivors in November and December, 1982—with additional amounts set aside for the first half of 1983. However, because of the continued dismal performance of the economy, even the combined reserves of Social Security could not meet OASI benefit payments some time next year if Congress does not act. All parties to the NCSSR deliberations recognized the urgent need for action to solve Social Security financing problems. The NCSSR bipartisan agreement was, therefore, a compromise out of necessity.

A CONSENSUS ON THE FUNDAMENTAL STRUCTURE OF SOCIAL SECURITY

The fact that the Commissioners, who reflect a very broad range of views, reached some agreement is testimony to the central importance of Social Security in our lives and the broad commitment that reasonable men and women of both parties have given to its present design.

Even the three who dissented from the agreement joined when the Commission unanimously recommended: "That the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."

We hope that this kind of fundamental agreement on the structure and purpose of Social Security will silence the right wing, with their unworkable ideas for voluntary Social Security or other destructive changes in our most successful social program.

THE DEVASTATING IMPACT OF UNEMPLOYMENT

Current Social Security financing problems are due to persistently high unemployment levels and inflation in excess of wage gains. If we had had a solid commitment to full employment in recent years, there would be a major improvement in Social Security finances today. The 1978 Social Security Trustees Report (which is so frequently criticized for over-optimistically predicting the future) included a projected unemployment rate far above desirable levels, but actual experience has been even worse.

The Commission was advised that every 1 percent increase in the unemployment rate translates into a loss of about 2 percent in Social Security contributions because periods of high unemployment drag down the general wage level, and each increase in official unemployment figures also means an increase in the number of "discouraged" workers no longer counted in the data. That relationship implies that if there were 6 percent unemployment annually, which we believe would still be unacceptably high, the aggregate additional Social Security income for the 1970s and 1980s would be about $65 billion above expected levels (which assume much higher unemployment rates). Providing counter-cyclical general revenue financing for years when unemployment exceeds 6 percent, as proposed by the Carter Administration, clearly would have mitigated the current OASDI crisis.

The absolute failure of the Reagan Administration's economic policy has forced us all to make hard decisions, and to make them under deadline pressure. The President's costly and unreasonable determination to "stay the course" can only mean that the financing problems of Social Security will be more difficult to solve. It is not correct to charge—as some have—that Social Security's supporters have previously understated the problem; rather, we have always recognized the relationship to the overall economy, and have focused our efforts on Government action to improve that. The high interest, high unemployment policies of the Reagan Administration itself are to blame for the depth of the current financing problems.

UNIVERSAL COVERAGE

The UAW believes everyone would benefit from Social Security coverage and that universal coverage would do much to improve the overall confidence people have in the system. We support the steps recommended by the NCSSR toward this goal. In particular, we note that the recommendation for Social Security coverage of future federal employees includes their right to a supplementary retirement plan. Federal workers rightly insist that the extension of coverage should mean neither reductions in their overall retirement protections nor increases in their contributions, along with other conditions. The UAW supports this position and expects Congress to faithfully carry out its obligation to see that federal workers are not adversely affected.

The Commission properly recognized that extension of coverage is more feasible if limited to future employees; we agree with that approach, including elimination of "windfalls" to those not covered by Social Security. Of course, Members of Congress, the Judiciary and the Administration, as well as related staff people, should all be in Social Security.

We support mandatory Social Security coverage for the nonprofit sector, as well as for state and local workers, as far as is constitutionally feasible. The burden of proof on this issue of constitutionality should be on those who would oppose coverage. The Commission's recommendation to prohibit opting-out is an important initial step.

SOCIAL SECURITY FINANCING: THE SHORT RUN

The NCSSR bipartisan agreement (in response to the present financing problems) is projected to provide about $168 billion through a combination of new revenue and benefit cuts. The Commission had earlier decided that between $150 and $200 billion would be a desirable goal for the decade. Actually, the $168 billion package reflects the use of different economic assumptions (lower rates of price and wage inflation, for example) than were used at the outset. If the package of recommendations were evaluated using the economic and demographic assumptions underlying the Commission's earlier forecast of the goal, then the financial effect of the package would be closer to $200 billion.

It is important to remember that agreement on this financing goal did not reflect agreement that such large amounts are actually necessary; a substantial portion of the $168 billion package (approximately $50 billion) is intended to bolster the cushion in the Trust Funds and does not reflect actual expected federal expenditures. Also, in setting its goal, the NCSSR intended to overcome any worry about the ability to pay benefits and used "worst-case" economic and demographic assumptions which, for example, assume that unemployment will remain above 8 percent for the next 5 years, that inflation will be above 8 percent for the next 6 years, that real wages will grow less than 1 percent per year for the decade and that the economy will remain in its present maliase.

Such a state of economic paralysis and contrived recession is unacceptable policy today and would be unthinkable policy for the decade. We believe it is unfortunate that it is necessary to base Social Security policy decisions for the decade on "worst-case" economic assumptions, but recognize that with each passing day of economic failure this Administration is taking us all closer to that awful reality. In order to reassure those who are concerned about continued payment of their benefits, it is prudent to put in place a legislative solution that is likely to provide too much—rather than too little—financing.

SOCIAL SECURITY FINANCING: THE LONG RUN

The NCSSR, using more reasonable economic assumptions for the long run, found that there may be a shortfall of 1.8 percent of taxable payroll for OASDI programs averaged over the next 75 years. The $168 billion of new money and the continuing impact of the recommendations of the NCSSR for the 1980s already account for about 1.2 percent of the expected long-run deficit, with additional possible deficits occurring at a point well into the next century. The bipartisan compromise (which we have stated has our reluctant support) does not include agreement on action for the long term deficit.

We strongly recommend enactment now of a provision in the law which would trigger partial general revenue financing in the next century if the trust funds begin to fall below adequate levels. That would be preferable to additional future payroll tax increases, which has been the traditional method used to "balance" the system. A permanent refundable income tax credit designed to offset the regressivity of the payroll tax would make a contingent future increase in the payroll tax less objectionable; but we believe an explicit commitment for general revenue financing is the most sensible solution for any possible financing problems in the next century and would do much to rebuild the confidence that younger workers have in the system.

Nine of the fifteen Commissioners recommended a one-year increase in the retirement age (from 65 to 66) by 2015 for those born in 1949 or later in order to meet the possible long-run deficit. They would also add a provision for a further automatic escalation of the retirement age based on estimates of average longevity improvements. The UAW is opposed to increasing the retirement age for regular or early retirement benefits, and to reducing the general level of benefits for baby-boom retirees as some have recommended. Neither course is justified at this point. Nothing would do more to erode the younger worker's confidence in the system than to increase his or her payroll taxes now and to promise a benefit cut or delay when he or she is just ready to retire. Blue-collar workers, who already spend more of their lives working and producing for the nation than do white-collar workers, can not be expected to accept a Social Security System that sets up a retirement age that will continually elude them. Such a change in Social Security would also mean a vast disruption of private retirement programs, and would be extremely difficult to reverse if later retirement proves to be undesirable. We view retirement policy both on its merits in meeting the needs of retirees and on its merits as a stimulus for employment of younger workers. In a wider sense, those who argue that we will experience labor shortages in the next century ignore that the weight of evidence is more with those of us concerned about the difficulties in reaching and maintaining full employment now and in the future.

The volatility and uncertainty of key economic assumptions over such long forecasting periods is simply too great for anyone to assert with any accuracy the amount of new money that may be needed and the appropriate source of such funds. No one questions that we will have many more retirees beginning in the second decade of the twenty-first century. What is very uncertain is a whole set of economic assumptions related to our ability to pay benefits more than a half-century from now (immigration, labor force participation of women, productivity, relative shares of taxable wages vs. fringe benefits). How many "experts" predicted in 1933 that more than 50 percent of all women would enter the labor force and thus boost the income to Social Security through the payroll tax?

The aging of the population in the next few decades is a social development which must be viewed in a very broad context. It is true that an aging population means increasing costs to the active workforce in cash benefits to retirees. It is seldom mentioned, however, that this increasing proportion of older people is due to a slowdown in total population growth. If the "baby boom" generation produced as many children as their parents, then the Social Security System would appear to be better off, but the entire nation would suffer the ill effects of overpopulation. This, the financing pressures on Social Security which may develop in the next century are a small price to pay for having avoided the social and economic dislocation of rapid population growth.

The affordability of Social Security in the long run (regardless of how we choose to fund the program) can best be though of by comparing total benefits to the Gross National Product. Today the monthly cash benefit programs under Social Security amount to about 5 percent of GNP. The 1982 Social Security Trustees' report estimates that this percentage will remain fairly constant until the second decade of the next century. From that point until the middle of the twenty-first century benefits are expected to be about 5–6 percent of GNP. Thus, when compared to the steady growth of output in the economy and our ability to pay benefits, the expenditures for Social Security are relatively stable during the decades when the "baby boom" generation moves through the system. Such a level of expenditures is also relatively smaller than that of any advanced European nation where expenditures for programs comparable to our OASDI system account for 6–10 percent of GNP.

ACTUARIAL, AND OTHER, PROJECTIONS

We recognize that revised estimates will be prepared by the Social Security Administration and others. While such estimates are useful to determine the approximate range of short and long term targets and the impact of program provisions, the NCSSR pointed out that its estimates and compromise package were adopted with advance recognition of such recalculations. Thus, unless some totally unexpected factors are relevant, we urge the Congress to resist any temptation to adapt the package to newer—but equally fallible—assumptions and projections.

The only certainty we can have about the future is that it's not likely to be what we expect. That's another reason why we in the UAW believe that the flexibility and reliability of a commitment for future general revenue is the best long term approach. The source of such general revenue and the incident on taxpayers can be adapted to whatever conditions prevail in the future.

ADMINISTRATIVE ISSUES IN THE NCSSR REPORT

The UAW supports several other NCSSR administrative recommendations, including: removing Social Security from the unified federal budget; improving the investment procedures for the Trust Funds; adding public members to the program's Board of Trustees; and creating a bipartisan board of directors to oversee the program's operations instead of leaving it under the control of the Administration's Secretary of Health and Human Services. Further, it is essential that Social Security's administrative capabilities be strengthened (both in staffing and computer facilities) so that efficient delivery of benefits can be maintained. All of these steps would increase public confidence in the system by insulating this vast social program (with extremely long-run commitments) from the risks of having its future decided under immediate budget considerations instead of in the proper framework of its enduring, programmatic needs.

BUILDING THE FUTURE OF SOCIAL SECURITY

The UAW has consistently argued that the present short-run financing problems of Social Security should have been solved by broadening the financing base of the program without tampering with its benefits. We have accepted the NCSSR bipartisan agreement as the best obtainable and enactable compromise given the economic and political circumstances and the urgent need to act. These difficult choices have been fashioned for us by the poor economic performance of the 1970s and by the Reagan Administration and its horribly costly failure to promote economic growth and full employment. Social Security only mirrors the general economy and this Administration has come dangerously close to shattering both.

We trust that this compromise will put Social Security financing on an even keel in the midst of the Reagan recession and save it from further attempts by the Administration to cut benefits.

In better times the UAW will continue to press for improvements in Social Security financing and its benefit structure so that it can meet more adequately the needs of the next generations of retirees and their families, without putting unfair burdens on the working population. Our ongoing agenda for Social Security includes:

Fail-safe financing mechanisms for the next century which rely on additional revenues from the progressive income tax.

Requiring employers to contribute to Social Security on the basis of total payroll.

Further improvements in Social Security benefits for those who work long years at substandard wages.

Further improvements in the equitable treatment of women.

Changes in the benefit structure to recognize the loss of protection millions of unemployed workers have suffered by being laid off from covered employment.

Social Security is an institution which reflects our ongoing collective choices about the kind of future we want to fashion for ourselves. We believe that Congress should continue to pursue these important fundamental issues in the future, and not simply limit itself to cost-cutting considerations as the Administration has consistently proposed.

STATEMENT OF JOSEPH SHERBER, EXECUTIVE VICE PRESIDENT, JOHN F. KENNEDY MEDICAL CENTER, EDISON, N.J.

As a hospital with an independent retirement system for its employees, John F. Kennedy Medical Center respectfully but strongly urges the Committee to consider that this program in place of Social Security will mean direct savings of millions of dollars in the cost of health care in the years to come.

We believe that such savings—a minimum of $7.5 million over the next 10 years for Kennedy Medical Center alone—cannot be ignored by a Congress committed to reducing the high cost of health care.

Therefore, we ask that the Committee approve an exemption for hospitals which have already elected to provide such an independent retirement program when drafting Social Security legislation.

It is a fact that during each year Kennedy Medical Center maintains its own retirement system, a step approved by 97 percent of our 2,000 employees, we save a minimum between $700,000 and $750,000.

Since we are already in the third year of this retirement program, the hospital will have registered savings of more than $2 million by the end of 1983. And, at the end of 10 years Kennedy Medical Center will have saved $7.5 million because of lower payments into an independent system.

This fact, of course, has a direct bearing on the cost of health care to the individual patient and the federal government.

These savings are passed on to our patients in the form of lower charges for health care. Since 45 percent of our patients are under Medicare and Medicaid, this is a vitally important factor to the government particularly as the median age of Americans continues to rise and the proportion of Americans covered by Medicare and Medicaid increases.

Nationwide, these savings at one hospital such as John F. Kennedy Medical Center may be multiplied by the nearly 100 hospitals currently providing independent retirement plans. The total of savings across the country obviously puts a huge dent in the overall cost of providing health care.

We also urge Congress to consider the fact that the independent retirement program is regarded by our employees as a major and valued benefit and was the course chosen by nearly 100 percent of our work force. It should be further noted that the coverage provided our employees under this program is at least the equal of Social Security.

John F. Kennedy Medical Center believes that the substantial savings—totaling millions of dollars—in the cost of health care more than justifies permitting hospitals such as Kennedy Medical Center to retain its independent retirement program.

We do not believe that such a strategy which saves hospitals and thus the patients money and reduces the enormous proportion of of the Gross National Product spent on health care should be dismissed out of hand.

We urge that Kennedy Medical Center and other hospitals be allowed to retain their independent retirement programs to continue these savings in the cost of providing health care.

STATEMENT OF ARTHUR B. LAFFER, CHARLES B. THORNTON PROFESSOR OF ECONOMICS, UNIVERSITY OF SOUTHERN CALIFORNIA

The Administration and Congress are once again on the verge of making a serious error in economic policy. Unfortunately, the systemic nature of the potential error and the virtual impossibility of its reversal almost guarantee that our children and grandchildren will be poorer as a consequence. While these highly politicized actions will have a marked detrimental impact on the secular performance of America, they should do little to retard the nascent cyclical sharp recovery this year and the next.

The proximate issue is, unfortunately, not confined to the relatively temporal crises perpetuated by the like of last year's billion dollar tax increase or other such immature dawdlings.

Social Security is serious and may not be handled in the off-handed manner so typical of highly politicized environments. Unfortunately, the President's Blue Ribbon Commission has succumbed to a most virulent infestation of Potomac fever and Social Security, as we've known it for years, is at risk. Before addressing the Commission's prescription a detailed view of two competing conceptions of what Social Security is and should be is *de rigueur*.

The one perception is that social security, inclusive of both payroll taxes and old age benefits, is a self-contained state-run insurance cum pension plan. Thus, people who have contributed into the system have earned the right to be fully covered by the system with all the inherent risks and rewards that that might entail. Give or take a pinch, this means that social security has an obligation, if not a survival imperative to be actuarially sound.

From this perspective, there is absolutely no question that our current Social Security system is grossly remiss. Using any type of insurance tables on longevity, income and inflation projections, and other such ingredients which are the grist of actuarial brews, the Social Security system stands with a deficiency in its reserves of some 4–7 trillion dollars. Such a number is so large and diffuse as to be meaningless.

If put in a slightly different context the abject terror becomes explicit. If benefits are to be maintained as stated by current law than payroll taxes will have to rise to over 25 percent (12½ percent each for employer and employee) within the next fifty years. This assumes unrealistically that such a surge in the payroll tax will not destroy the very income based upon which it is levied. Quite clearly, when viewed in this perspective the entire Social Security system is literally bankrupt. Like the proverbial Maserati careening toward a granite wall at 175 kilometers per hour, there is no question the system will stop. The only issue is how.

And yet, another perspective on our Social Security system yields a diametrically opposite feeling. This view envisions Social Security as nothing special in the context of government spending and tax programs. Social Security most assuredly is not a payroll tax linked inextricably to old age benefits. True, there is a payroll tax but there are lots of taxes and anything short of a full commingling is disingenuous poppycock accounting. Likewise it is equally true that there are old age benefits. But they too should not be treated separately but should be considered within the panoply of all spending programs. When seen in this light there is no Social Security problem per se but only an overall budget problem.

From my personal perspective, the latter view is more constructive. There is no percentage in trying to link spending programs with specific taxes. Taxes should be collected in such a fashion as to minimize their damage to the society while providing the requisite revenues. Likewise, spending programs should be determined in accordance with the tastes of the society and the programs the society deems appropriate. Thus, if next year we learned that payroll taxes were exceptionally pernicious taxes while other taxes were far less noxious, it would be foolhardy for us not to substitute other taxes for payroll taxes.

In a similar vein, if the government in its infinite wisdom decided agricultural subsidies were appropriate in 1965 and that old age benefits should commence at age 65 in 1940, there is no reason why all years hence should necessitate agricultural subsidies or old age benefits commencing at age 65. A society's views as to what is appropriate do change. Sometimes those changes come about because society's tastes change or even as a result of recognition of past errors. They also change because the conditions of man change. Just because many people whom we consider officially in a poverty category today would have been above that designation a century ago, does not imply that we should not help them now. If we want to help them we should. If five years from now the society changes its mind and wants to help them more or less, that too is perfectly acceptable.

What is totally unacceptable however, is committing the government to a specific course with specific promises and then after people have, as a consequence, relinquished reasonable alternative reneging on that commitment. This is totally abhorrent and in my view immoral.

The Blue Ribbon Commission has recommended just such an immoral path. The Commission has recommended that the benefits to those people currently receiving retirement benefits be reduced. Their proposed reduction occurs through a permanent six month delay in the cost of living adjustment for benefits and also by subjecting some Social Security benefits to the income tax period.

The elderly have no way of coping with such cuts except by absorbing the full brunt and experiencing the anxiety, associated with such arbitrary actions. Being as old and as infirm as many of our Social Security recipients are, the attendant feeling of insecurity weighs far more heavily on their minds than any savings to the government could benefit the rest of us. These are the very people who provided our nation's security years ago and now they are forced to exist on the quixotic vagaries and whims of those yahoos in Washington. What the Commission has recommended here is wrong.

The Blue Ribbon Commission also recommended higher payroll taxes for those people now taxed and through coverage of workers previously not covered. This too is quite simply bad economics. America doesn't need more taxes now just when it is starting to recover from its worst recession-depression since the 1930s. But even more to the point, the one group that needs the tax increase least is the low wage worker group selected by the Commission as its victim.

The payroll tax stops at an earned income of somewhere in the mid-thirty thousand dollar range. It doesn't count unearned income in its base either. Low wage workers are just those people suffering most from the economy's horrendously high unemployment rates, from the threat of foreign competitions and from high-technology job displacement. They don't need nor do they deserve higher taxes to make them less competitive, more susceptible to replacement by automation, and more victimized by higher unemployment rates. Again, what the Commission has recommended is wrong.

The Commission's sins of commission are no worse than their sins of omission. By not addressing the relevant issues this Blue Ribbon Commission has forfeited an opportunity rarely experienced. We were afforded an opportunity to respond morally and with good economics to an issue that troubles all of us. They did nothing to address the real issue.

It doesn't take a genius to realize that people live a lot longer now than they did in 1940 when Social Security began. Life expectancy alone has risen by more than ten years. Few people ever lived to be 65 years old in 1940. A lot more do now. As a consequence, a reasonable retirement in 1940 is nonsensical today. Times have changed, but Social Security's retirement has not.

The only proper redress of our Social Security dilemma is to extend the retirement age. The only way to do that morally is to allow people time to adjust to the new rule. Thus, my view would be to announce to everyone that those people between the ages of 50 and 60 will start receiving Social Security benefits at age 66½. If they so choose, they can retire on their own at 65 or continue working. Whatever, their benefits begin at age 66½. People between the ages of 40 and 50 will begin receiving benefits at age 68, people under 40 will start their benefits at 70 years of age. Why the Commission refused to recognize this straightforward reality is at the core of why our government is failing us everywhere.

Statement of the Louisiana State Employees' Retirement System

Mr. Chairman and members of the committee. This statement was adopted on February 9, 1983 by the Board of Trustees on behalf of more than 100,000 members and retirees of the Louisiana State Employees' Retirement System. This System, established in 1947, has never opted to be a part of Social Security.

First, we are pleased that the National Commission on Social Security Reform did not recommend mandatory inclusion of all state employees in Social Security.

Second, we are pleased that the Commission recognized that involuntary inclusion of state governments in the Federal Social Security System is not constitutionally permissible. The Office of the Attorney General, State of Louisiana, is one of many legal authorities whose research has resulted in this conclusion.

We are, however, dismayed that the Chairman of the National Commission on Social Security Reform has publicly stated that "were it not for constitutional prohibitions with respect to inclusion of state and local employees, universality would clearly be desirable". We must vigorously challenge his assumption that universality would clearly be desirable.

(A) Principal reasons why mandatory inclusion of State and local employees in Louisiana would not be desirable from the standpoint of social security:

1. The Social Security Administration has long been recognized as a "social program" that redistributes income by paying proportionately more generous benefits to low-wage than to high-wage workers. Thus, including a group whose average income is less than the income of the national group currently covered would simply result in another net liability being added to Social Security. The following information was prepared by the Research Division, College of Administration and Business, Louisiana Tech University, from data supplied by the Regional Economic Information System, Bureau of Economic Analysis:

EMPLOYMENT AND EARNINGS DATA FOR 1980

	Earned income	Employment	Earned income per job
Louisiana: State and local	$3,181,724,000	265,522	$11,983
United States:			
State and local	177,146,000,000	13,362,000	13,257
Total employment	1,611,695,000,000	96,634,300	16,678

2. We understand that the Social Security Administration has more than 100,000,000 active contributing participants and 36,000,000 monthly benefit recipients. Articles appearing in national publications within the past year indicate that the System has outgrown the computer system that it depends upon for maintaining individual records and getting the monthly checks out on time. The addition of new Federal employees and all non-covered employees of tax-exempt organizations as recommended by the National Commission on Social Security Reform will involve record keeping on a frequent basis for millions of new participants for a system that is having extreme difficulty keeping pace with its present participants. We fail to see why it would be clearly desirable to compound the problem by adding several

million more state and local employees to Social Security before it is clearly demonstrated that they have the capability to render efficient service.

(B) Mandatory inclusion of State and local workers in the social security system will remove the substantial investment of State pension funds in the economy each year.

In 1983 according to the Salomon Brothers' Booklet "Prospects for the Credit Markets", $12.2 billion of state pension funds will be invested in U.S. Treasury and Federal Agency Securities. An additional $12.3 billion will be invested in corporate bonds, $7.3 billion in corporate stocks and $1.3 billion in the real estate mortgage market.

No one can project with certainty how many billions of dollars would be lost from the capital markets should all state and local governments become subject to universal Social Security. However, we know that in the last fiscal year the amount of growth in our securities portfolio amounted to 54 percent of our gross income. We believe any reasonable person would concede that any such moneys diverted to the coffers of Social Security would be quickly redistributed as monthly benefit checks and that the recipients would invest a great deal less than 54 percent in bonds, stocks, construction projects, banks, or thrift institutions.

Removal of these funds from the capital markets would result in corporate and Federal borrowers chasing a diminishing source of capital and bidding up the cost in the process. Federal borrowing costs are increased and the ability of American industry to complete in international trade is reduced.

(C) Exploring the merits of mandatory inclusion of State and local workers from their standpoint.

Mr. A. Haeworth Robertson, Social Security's Chief Actuary from 1975 to 1978, recently authored a book entitled "The Coming Revolution in Social Security" in which he states that of eighteen million employees with optional Social Security coverage, fourteen million are currently participating.

In the area of commerce, national policy has long opposed monopoly positions. We believe that the current optional participation is healthy. If Social Security can make its case that it offers a better value per dollar of contributions to our members than does our separate system, the door is already open for them to do so. Let the element of competition prevail. The burden is on separate systems such as ours to deliver a superior product to our members. If we fail, our members can demand an affiliation with Social Security in their own perceived self-interest with no change in the existing law.

SUMMARY

A statement has been made that "were it not for constitutional prohibitions with respect to inclusion of state and local employees, universality would clearly be desirable". We believe we have demonstrated that universal coverage of state employees is clearly undesirable from the standpoint of Social Security, the national economic interest, and from the standpoint of the state employee groups who have not heretofore opted to join Social Security. We continue to feel that a freedom of choice should be afforded the American worker whenever possible, particularly in an instance such as this where the advantages of maintaining voluntary participation so greatly outweigh those that might result from mandatory coverage.

STATEMENT OF THE MACHINERY AND ALLIED PRODUCTS INSTITUTE

MAPI is pleased to have this opportunity to express its views on the changes to the social security program made necessary by the current financing crisis.

THE ROLE OF THE NATIONAL COMMISSION

Before taking up our principal statement, we want to express our appreciation and that of our member companies to the members of the National Commission on Social Security Reform. The Commission was charged with examining alternative means of avoiding a financial collapse of the social security system and recommending to the President and the Congress an appropriate course of action. So intractable was the subject matter of the Commission's inquiry that its studies consisted mainly of a search for the least undesirable from a whole range of generally undesirable alternatives—and this is a super-charged political atmosphere.

To have arrived at a recommendation under these circumstances is a tribute to the wisdom and restraint of the Commission's membership. Nor is our sense of gratitude diminished by the fact that we do not agree with the compromise in a number of important respects. It provides a most useful baseline, a starting point, for consideration by those ultimately responsible for the social security system—the members of the Congress. In this connection, it is interesting to note that a member of the Commission—Senator William L. Armstrong—has stated that "The most important single achievement of the Commission, under the patient, considerate, and scholarly leadership of Chairman Greenspan, has been to marshall a consensus for admitting the problem." Prior to adopting any specific recommendations, the Commission estimated a funding gap of $150 to $200 billion between now and the end of the decade.

As the congressional process goes forward, we trust that statesmanship will prevail over temporary political expediency. As you look around the world, it is not difficult to identify countries which overcommitted themselves to "benefit programs" and are searching for the political courage to cut back. We venture to suggest that the directions of the social security system, particularly as to benefits and heavy and growing reliance on taxes, may not be affordable in the U.S.

The Institute has written extensively about social security over the years [1] and like most observers holds some strong views about the strengths and weaknesses of our current system. We start with the premise that present political realities dictate a "compromise." To correct the current financial problem, some "give" has to be exacted in both the tax and benefit areas, and the "mix" must be reasonably evenhanded.

SUGGESTED STANDARDS FOR A "COMPROMISE ENACTMENT"

Having expressed this view, we hasten to add that a compromise cannot be acceptable if it does not meet the following standards:

It should not alter the fundamental principles of the system.

It should "hold down the tax burden on the workers who support Social Security." [2]

It should be fair.

It should not be a vehicle for "cleaning up" related problems which have no present financial implications.

It should not ignore the resolution and burdens of past attempts to solve financial crises.

It has been opined that Congress must accept the National Commission's package without any changes lest bipartisan support evaporate once tinkering commences. We, frankly, are convinced that some adjustments can be made. We feel strongly that a helter-skelter rush to pass a measure containing some misdirected provisions could have the unintended result of weakening the support of certain key sectors of the public and, in effect, do more long-run harm than working hard now to achieve a better compromise.

Our views below deal with three elements of the compromise which we believe to be most unfortunate: (1) taxing benefits of certain retirees; (2) including 401(k) plan reform in the compromise package; and (3) once again using employer and employee payroll taxes to reduce anticipated revenue shortfalls. Our position does not represent a full endorsement of other elements of the package. For example, we see a disappointing degree of timidity in extending coverage to such a limited number of federal government employees; we are disturbed by the creep in dependence upon federal revenues for support of the system; we strongly urge the adoption of provisions to meet the longer range financial shortfall which appears to be increasing as new data is made public; and we believe it is timely to "cap" the automatic cost-of-living benefit escalator. But in keeping with a spirit of compromise, our comments are limited to those parts of the package we believe must be changed consonant with the standards noted above.

FUNDAMENTAL SOCIAL SECURITY PRINCIPLES

As the Ways and Means Committee well knows, our current social security system is complex and hybrid providing a broad range of benefit programs for an equally widespread number of needs. Basic and perhaps central to the system is a retirement benefit program for the aged installed originally as a type of social insurance plan as contrasted with the well-known flat-benefit method advocated by Dr. Francis E. Townsend. This income retirement plan, in terms of results, is very much like a private retirement plan system except that benefits are weighted at the lower end of the wage and salary scale.

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[1] See NAPI publications: "Social Security: How Should It Be Reshaped To Meet the Goals of the System and Federal Tax Policy?" (1980); "Social Security—The Financial Crisis in Perspective" (1977); and "Social Security and Private Pensions at the Crossroads: Crisis or Compromise" (1967).

[2] See President Reagan's Letter to Congressional Leaders Dated May 21, 1981 on "Social Security Trust Fund" and Statement by Richard S. Schweiker, Secretary of Health and Human Services, before the Subcommittee on Social Security of the House Committee on Ways and Means, May 28, 1981.

Much has been made over the years of maintaining the insurance concept, the earned-benefit approach if you prefer. Simply put, Congress through the years has resisted numerous efforts to weaken the relationship of benefits to earnings and the relationship of the right to benefits tied to performance of work.

Indeed, it is fair to state that in fending off repeated attempts to turn an "insurance" plan into a welfare scheme, Congress had adopted a number of programs to aid the elderly which in effect are outside the realm of social security. Two come quickly to mind: the Supplemental Security Income Program and the various special income tax rules for those aged 65 and over.

Obviously, the effort to maintain the system in the context of an insurance plan has been difficult in major part because it is operated on a pay-as-you-go basis and Congress reserves the right to change at any time the program, the benefits to be received, or the eligibility requirements. Thus, there is no property right—only, perhaps, a strong moral right. We strongly believe, however, that the program's credibility still turns on the belief that the plan is not a "welfare" program incorporating the usual means test.

Unfortunately, the Commission's compromise package attacks this insurance principle through the back door. We are referring specifically to the recommendation that 50 percent of OASDI benefits be considered as taxable income for income tax purposes but only for persons with adjusted gross income (before including OASDI benefits) of $20,000 if single and $25,000 if married. This change would introduce a means test modifying the "right" to benefits and clearly make a mockery of the earned-benefit theory and the insurance concept. Moreover, it is not fair.

We do not think this new proposal can be allowed to stand as it is if Congress intends to maintain the program as a social insurance system. The weaknesses of this recommendation include the following:

This reduction of benefits cannot but erode the faith of taxpayers in the system, particularly the higher paid ones and their employers who are experiencing the annual burden of rising taxes due to increases in the taxable wage base. Much has been said about not cutting promised benefits, yet that is what this change would accomplish first and foremost and in a discriminatory manner.

The proposal penalizes that portion of the system's beneficiaries who have indeed made social security's floor of protection, the intended role for this system.

The impact of the proposal will gradually, whether or not so intended, extend itself as the $20,000–$25,000 level includes more and more beneficiaries, while only 10 percent are estimated to be covered today.

We believe that a means test for benefits is absolutely untenable if the system is to continue to have credibility. Its impact would be very negative. For example, many employers build their pension plans on top of social security, i.e., integrate the two. With the proposed change, it is not possible to determine what level of benefit an employee may qualify for since some employees will be taxed and others will not.

While it would be fairer to tax one-half of every beneficiary's benefits, a better alternative is to find another income source. Retaining this provision under the excuse that it is part of an "unchangeable" package is in our view unacceptable.

NONGERMANE PROVISION

We recognize that Congress must maintain an ongoing oversight of social security to correct inequities and to eliminate technical errors. We do not think, however, that the compromise financial solution put forward by the Commission is a proper vehicle for such "housekeeping." Our prime concern here is the recommendation for social security coverage of payments under salary reduction plans.[3] Specifically, it is proposed to include in taxable wages for purposes of OASDHI those salary reductions made under salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code.

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[3] Employees can put some 10 percent of their salaries into company profit-sharing or savings plans and for tax purposes the funds are treated similarly to a company contribution to a thrift plan.

This provision first surfaced in the 1982 version of H.R. 60, "The Social Security Miscellaneous Technical Improvement Act of 1983." We find the proposal to be both unreasonable and totally unnecessary as part of a bill to correct for fund shortfalls since it is alleged to have zero current revenue implications—only prospective ones.

This proposal is unreasonable in our view because it seems to represent a highly circuitous method to discourage the adoption of 401(k) plans. We do not believe Congress was in error in creating this opportunity to encourage saving and capital accumulation on a broad nondiscriminatory basis. To the extent that employees are less dependent on social security for retirement assistance the better off the system will be. While 401(k) plans will never be a "mandatory universal pension system," it makes no sense to attack them by indirection. If there is a concern, it should be addressed in appropriately called hearings.

We think from a technical standpoint this proposal has a host of flaws, including the following, among others:

It tries to distinguish between 401(k) plans and other similarly qualified cash and deferred arrangements by subjecting only the former to OASDHI taxes.

It ignores the extensive variation in the design of such plans which makes it difficult to determine what amount would be subject to the social security payroll taxes.

It would create an administrative nightmare by establishing another definition of wages for payroll purposes.

The only apparent logic of pulling this provision into the financing reform measure is that some day if enough 401(k) plans are adopted, there could possibly be a revenue loss for the social security system. This "could be" scenario does not strike us as a relevant problem insofar as the compromise proposal is concerned. We urge the Committee to drop it and, if deemed necessary, reexamine the entire 401(k) provision in separate hearings.

AN UNBALANCED RELIANCE ON TAXES

Six years ago, the social security system faced a similar financial crisis. To close the gap between social security outlays and receipts, Congress passed the largest peacetime tax increase in U.S. history, raising both tax rates and the earnings base to which the tax rates are applied. The debate surrounding that 1977 legislation was full of assurances that the measure, if enacted, would ensure the long-term stability of the system.

In a bite-the-bullet atmosphere, taxpayers, employees and employers were asked to help "right" the system. Indeed, the legislation adopted a schedule of social security tax rate increases over then-present law for 1979, 1981, 1982, 1985, 1986, and 1990. The law also specifically mandated increases in the taxable wage base in 1979, 1980, and 1981. Since 1981, of course, the automatic adjustment procedures have provided still further increases in the taxable wage base in both 1982 and 1983. The combined maximum tax for the employer and employee has steadily climbed from $1,930 in 1977 to $4,784 in 1983 and will rise to an estimated $8,676 in 1990 under the 1977 amendments.

It is estimated that the bipartisan package contains new sources of revenue and tax increases of about $100–$130 billion depending on whether the taxing of benefits is classified as a tax increase or a benefit reduction. Further, when the compromise and the 1977 amendments are added together, the result is $400 billion in new revenues and tax increases to close a gap of around $500 billion, or an 80–20 split.

Obviously, in anyone's view this is an unbalanced reliance on taxes, which places an excessive burden on the taxpayers, while at the same time immunizing retirees to a significant extent. The Ways and Means Committee must recognize that there is a "limit" at some point. Yet, the last decade has shown Congress repeatedly turns to tax increases rather than benefit restraints. This is not a true compromise.

Many experts are currently indicating that the long-range deficit is much worse than the Commission has predicted and others point out that the prospective significant deficit in the hospital insurance fund is not even being addressed. Taxpayers can add two and two. This "compromise" is a signal to employers and employees alike that future shortfalls will again be met largely by higher taxes. This is a grim prospect, particularly for the younger worker. It is certainly likely to create another crisis of confidence, but one largely directed at Congress that apparently hasn't the will to: restrain future benefits to lessen the prospective tax burden, or even to distinguish between benefit restraint—such as that accomplished in the 1977 amendments—and benefit "take aways" which is not being advocated.

A further argument against excessive dependence upon the tax route is an economic one. Given the prospect for slow economic recovery and growth, this compromise will serve as a further drag on the economy. It is a bar to employment—it may even cause unemployment—and obviously is a disincentive for the consumer. In short, the case for further accelerating the scheduled payroll tax is not there. The 1977 changes have placed a heavy tax burden on both employers and employees. To achieve a balance now, it is appropriate to seek benefit restraint.

CONCLUSION

It seems obvious that the compromise being rushed through Congress is not likely to please anyone. Certainly the list of social security "no no's" which are being violated is long, e.g., using significant new general revenue financing, abandoning the earned-benefit concept, undermining efforts to save for retirement, and—again—significantly raising taxes. We sincerely believe this compromise does too much damage to basic principles to be acceptable without change.

Having stated this position, we offer the view that Congress should treat the package as a reasonable starting point which must be modified and fine-turned to preserve the basic social security principles. The present framework does not have to be torn down to arrive at a better measure. The need is simply to recognize that the proposed compromise violates too many principles to be acceptable.

It will be recalled that after the 1977 amendments were passed, many predicted a taxpayer revolt. While no such revolt has materialized (although many of the tax increases in that law are not yet effective), it seems fair to conclude that with the passage of the present proposal the future of the system itself could well be put in doubt. When it is realized that Congress is relying on a payroll tax to promote a retirement plan which is taking on more and more of the characteristics of a welfare system, it is likely the taxpayer will entertain new doubts about the merits of the program.

In sum, the risk of upsetting a "fragile" compromise should be subordinate to that of undermining the entire system.

STATEMENT OF MICHAEL S. MARCH, PH. D.,[1] BOULDER, COLO.

An unprecedented effort to cut earned Federal pensions is being made by the Reagan administration and several groups of well-to-do business leaders who have long been lukewarm towards social insurance. The effort to reduce pensions to the low-income retired people is being carried out under the Reagan budget-cutting banner behind the screen of projected large Federal deficits. There is no hint for the American people in the publicity on this subject that the projected deficits are entirely the product of reckless and unproductive Reagan tax cuts in 1981, which dwarf the Social Security shortfall by at least 7 times, and the Reagan recession.

The Reagan administration, especially the OMB, is leading this effort. Abetting this attack is Wall Street financier Peter G. Peterson who has recruited 500 businessmen in a so-called Bipartisan Budget Appeal to cut $60 billion a year from Federal employee and social security pensions and other entitlement programs. His particular targets are the "non-means-test" Federal retirement programs such as Social Security and Civil Service Retirement. He wants to slash their real worth by stopping or cutting indexing and exposing the elderly to the untender impacts of inflation. But he wants to keep the Reagan 10 percent income tax cut for July 1983 and the income tax indexing which begins in 1985 for the Cadillac-sized tax cuts which his rich cohorts got from Mr. Reagan. He also has not mentioned as an area for economy the tax-subsidized and non-means-tested pensions which corporate executives enjoy ($27 billion of tax subsidies in 1983, according to the Senate Budget Committee).

The recent National Commission on Social Security Reform has reaffirmed the long-standing principle that a continuing financially-assured Social Security system is necessary for the economic security of Americans. However, under pressure from Mr. Reagan's OMB Director Stockman, it recommended a 6-month delay in statutory cost-of-living adjustments (COLA) which will reduce the real pensions of the Social Security recipients by more than $1,000 on the average over the next 7 years—$40 billion in total. Moreover, if the trust fund sinks below 20 percent of annual outlays beginning in 1988, the COLA for pensioners will be the lesser of the increase in the wage index or the consumer price index—a lose/lose proposition for retirees. The Commission report does not outline a coherent set of principles for its actions. It essentially details a set of compromises untested against the historic rules of fairness, equity, and adequacy.

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[1] Prepared for the Hearings on Social Security by the Committee on Ways and Means of the U.S. House of Representatives, February, 1983. Dr. March served in the U.S. Bureau of the Budget and Office of Management and Budget from 1944–1973, specializing in the field of pensions. He is presently Professor of Public Affairs in the University of Colorado at Denver. The views are those of the author and are not necessarily those of any organization with which he has been affiliated. His 1981 study of U.S. Income Maintenance was published by the G.P.O.

President Reagan has seized on the Commission's unfortunate willingness to renege on existing statutory COLAS for Social Security and also to defer COLAS for Civil Service retirees for a whole year. His proposals raise in stark form the issue of whether the U.S. Government's statutory pension commitments to retired people have any reliability and whether current workers and retired people can have any confidence in Federal pension systems.

PUBLIC POLICY ISSUES—ANALYSIS

The abrogation of statutory pension provisions for COLAS or other rights for people who met statutory criteria for retirement and were awarded pensions is a Government violation of its public trust and its responsibilities to defenseless elderly people. The proposed actions are economically unfair and socially cruel impositions on the weakest people in the society:

1. 1981 Reagan tax cuts are at fault.—The earned statutory rights of Federal pensioners are being crucified on the altar of Reaganomics. The Reagan administration used trumped up economic budget projections in 1981 to lobby through a huge economically unjustified and fiscally reckless tax cut. Now it is using assumptions slanted in the opposite direction to show big deficits and to scare the Congress into cutting earned pensions as well as other entitlement programs. Since early 1981 pension cuts were always buried in the unidentified portion of OMB's projected future-year savings—a full disclosure was not made to the public to avoid public demonstrations.

The current budget-cutting materials by President Reagan, Treasury Secretary Regan, and OMB Director Stockman fail to identify the cause of the large projected deficits—the 1981 Reagan tax cuts. The 1981 tax cuts, as fractionally offset by the 1982 tax "reforms," will total $1.5 trillion during 1983-1989—7 to 10 times the projected shortfall in Social Security funds for these years. Without these reductions in revenues the deficits would be tolerable and there would be adequate latitude for the offsetting Social Security tax increases necessary to fully fund statutory pensions. Why should public pensioners suffer because supply-side economics miscarried?

2. COLA cuts are inequitable and Reagan tax cuts are unfair.—The common ingredient of practically all the pension cut plans is to cut, cap, or drop COLAS. The proponents of cuts in real pensions by deferring and manipulating formulas for COLAS are asking low-income pensioners to help pay for the fully indexed Reagan tax cuts for the rich and for corporations. Congressional Budget Office data shows that 85 percent of the net 1981-1982 Reagan tax cuts will benefit taxpaying households with incomes of $20,000 and over; and 50 percent will go to households with incomes over $40,000.

Indeed, 1.2 percent of the households with incomes over $80,000—in which Mr. Peterson's cohorts would be found—will receive 17 percent of the tax cut benefits—averaging more than $20,000 annually per household by 1985. Bureau of Census data for 1979 show that 85 percent of the elderly people had total incomes of less than $10,000 per year, of which the primary source was Social Security. Only about 5 percent had incomes of over $15,000. People over age 65 had median incomes only about 40 percent of the incomes in the age 45-54 group in 1979. Is it fair for income to be redistributed by public policy from the low-income people to the rich as the Reagan administration is proposing?

3. Public pensions are earned rights and are needed by retirees.—"Takeways" of awarded Social Security and Civil Service Retirement pension rights by changing the statutes under which workers have retired and have been awarded annuities is a violation of a solemn public trust to the workers who have contributed for years to the pension trust funds.

The U.S. Civil provides the deferred portion of career compensation for Civil Service employees. These pensions average about $1,000 a month for retired workers and $450 for survivors Social Security, likewise, has been presented to the public by Democratic and Republican Presidents and Congresses as the people's assurance of a basic income in old age or in the event of total disability or death of the breadwinner. Monthly percent annuities now average about $400 for single retirees and $700 for couples.

What confidence can U.S. civil servants and workers under Social Security have in these systems if the government reneges on its statutory promises to pay benefits pursuant to the terms of the laws under which workers have retired in the belief that they could trust the Government? In the past the Congress commonly "saved" the rights of people on the rolls, and particularly, so for contributory pensions such as Civil Service Retirement.

4. Trust funds were established to insure payment of earned pensions.—In recognition of the essentially contractual nature of U.S. pensions it has been national policy, established by Republican and Democratic Presidents and Congresses starting in 1920, that the contributory Civil Service Retirement and Social Security retirement systems should be funded on a continuing long-range basis through trust funds which assure payment of the statutory pensions—thereby sheltering these systems from the short-term fiscal viccisitudes of the General Fund Federal budget. Indeed, during President Roosevelt's administration the Economy Act of 1933 did not reduce Civil Service retirement pensions because they were contributory and obligatory payments from trust funds. In the decades since then, until the last few years, these earned pensions have been treated as "fixed commitments" and have not been tampered with.

Moreover, these trust fund plans were not included in the Federal Budget totals until fiscal year 1969. Since then new policymakers, unfamilar with the early history and the obligatory nature of pension commitments, have treated them as though they could be cut at will in the annual budget process. The Reagan administration has contributed to the confusion by lumping earned Social Security and Civil Service Retirement pensions into a single category of "entitlement" programs along with "means-tested" public assistance, food stamps, and veterans' non-service-connected pensions. This pejorative grouping has presented the contributory, earned pensions in an unfair and improper light.

A sharp distinction must be made between earned, contributory pensions and the general fund needs tested programs. The earned pensions are in essence contractual payments based on earned eligibility; the needs test programs are public gratuities.

5. COLA provisions are a necessary and key part of the retirement "contract".—Protection of people with modest, basic public pensions against the ravages of inflation is economically essential—and is part of the Government's retirement commitment on which workers have staked their decisions to retire in the belief that they could rely on the Government's statutory commitments. Periodic cost-of-living adjustments to maintain the real value of annuities were enacted in 1962 for Civil Service retirees (CSR) and in 1972 for those on Social Security (SS).

At retirement workers typically take cuts from prior pay levels of more than half under CSR and even more under Social Security. In 1979 the incomes from all sources of persons age 65 and over, were only about 50 percent of those in ages 45–54 (U.S. Statistical Abstract, 1981, p. 444). It would be deplorable public policy to force elderly people to incur even further reductions in their standard of living due to inflation. A 5 percent inflation rate would cut the real value of a pension by nearly 48 percent in 10 years; a 10 percent rate by more than 60 percent. In this inflationary environment the COLA is the most important right Federal pensioners have beyond and their right to receive a pension. In the present inflationery era to cut or defer COLAS is to cut the real pensions of retirees. To say that dollar benefits are not being reduced while denying proper COLAS is a sly misrepresentation of the real effect of COLA cuts.

6. Reagan administration pension policies create fear and concern.—President Reagan and his team have repeatedly violated their promises to pensioners and are not being fair to elderly pensioners now on the rolls who have no practicable way to enhance their incomes.

The 1980 Republican platform lulled the Older Americans into voting for Mr. Reagan with statements such as "Inflation is called 'the cruelest tax'. . . . It strikes most cruelly at the elderly. . . . Inflation has robbed our elderly of dignity and security. . . . Social Security is one of this nation's most vital commitments to our senior citizens. We commit the Republican Party to first save, and then strengthen, this fundamental contract between our government and its productive citizens." None of these statements even hinted that Social Security pensions and rights would be "saved" by cutting benefits.

But when Mr. Reagan became President he took repeated actions to make massive and unprecedented cutbacks in social security rights and to force retirees to bear the "cruelest tax" of inflation by denying the COLA due them under the law. In 1981 he proposed elimination of the Social Security minimum pension and also multi-billion-dollar curtailments in retirement eligibility. In 1982 he endorsed a Senate Budget Committee plan for a $40 billion reduction in Social Security pensions over 3 years. When all these proposals were rebuffed he led in creation of the National Social Security Reform Commission, which was manipulated by OMB Director Stockman into recommending a 6-month deferral of COLA which would cost the elderly $40 billion by 1989, plus other important cutbacks in earned social security rights.

Meantime, President Reagan has repeatedly told the elderly that their Social Security pensions would be not be cut. In late 1981 he want before the White House Conference on Aging and stated "We will not betray those entitled to Social Security benefits. . . ." In his State of the Union message on January 25, 1983 he endorsed the recommendations of the Social Security Commission and stated that under this plan "the integrity of the Social Security system will be preserved— and no one's payments will be reduced." This is a deceptive statement which at its core misrepresents the real effect of the Reagan-endorsed plan, because what really counts is the real purchasing power of the Social Security checks, not their nominal dollar amounts. The Commission's plan, which he has endorsed, will reduce the Social Security pensions by forcing annuitants to bear the "inflation tax" for 6-months, and thereby cut pension payments by $1,000 for the average pensioner over the next 7 years from what present law would provide, by taxing half the Social Security pensions of persons with higher other income, and by giving annutants in future years less than full COLAs if the trust fund falls below 20 percent of annual outlays. Such statements try to fool the elderly and will damage their well-being by leading them to think that their pensions are being preserved when actually the pensions are being cut because their statutory rights to full COLAS are being abrogated or some benefits are to be taxed for the first time.

The unfairness of the President's policies with respect to the elderly becomes more evident in the light of the President's unequivocal and repeatedly stated support for retention of the 1981 provision for indexing of income taxes for the rich and the administration's use of the real purchasing power criterion for calculating increases in the Pentagon's budget. If indexing is appropriate for the rich and for the armaments budget, is it not even more appropriate for pensions for the low income elderly? Moreover, should not the President at least tell the elderly the truth—that he is proposing to cut the real value of their pensions by endorsing revisions in their existing statutory rights to full cost-of-living adjustments—and also explain his position on why indexing of taxes for the rich should be retained while indexing of pensions for the elderly is being proposed for reduction?

President Reagan has said publicly that his 1984 budget proposals are "fair." But he is asking low-income elderly to take cuts in real pensions, while handing out hundreds of billions in tax cuts for the rich. The Congress must make sure that the proposed policies are in truth fair on the basis of longstanding policies previously enacted by the Congress time after time on which the American people have come to depend in planning their economic security. The Reagan administration's proposed Social Security and Civil Service Retirement cutbacks in pension rights will destroy confidence in these systems and create fear and insecurity among the elderly by engendering great uncertainty. The Congress must show retirees and current workers that their pension rights are secure.

7. Proposals severely jeopardize civil service retirement pensions.—Among all the Federal pensioners, Civil Service retirees are the most endangered by the Reagan administration. President Reagan has utterly broken the promise he gave them in 1980 to support their twice-yearly COLAS, and having gotten away with it so far, is making recommendations which will destroy the Civil Service Retirement and Disability Retirement system as it has existed for 63 years. His actions and proposals are completely unfair to members of this system. This proposed denigration of the status of Civil Service employees, active and retired, poses the biggest threat to the career service since the Pendleton Act was approved by Republican President Arthur in 1883.

Retirees under the U.S. Civil Service Retirement (CSR) system, which covers members of the Congress, have best grounded rights to their pensions among all groups of Federal pensioners. CSR pensions are an integral part of the Government's personnel policy. Their purpose is to promote the efficiency of the Federal career service. Pensions are the deferred portion of the compensation for career service. These annuities are geared directly to years of service and to high-3-year covered wages.

The CSR system has always required the highest employee contributions of any major system—and, most unfairly, both these employee's contributions and the ensuing annuities (except for return of own non-interest-bearing contributions) are subject to the Federal income tax. Federal employment covered under this system has not been covered by Social Security, so CSR pensions for career employees fill both the basic income replacement function of OASDI and the staff retirement function filled by corporate retirement plans. CSR wage replacement ratios are in line with those of private employees who receive both Social Security and supplementary pensions. Civil servants who earned their pensions and retired under the statutorily prescribed eligibility conditions have a legitimate right to cry "foul" when the President proposes to change the law to deny them the earned, cost-of-living adjusted pensions which they have every right to receive under present law. They are being punished because their trust funds are in the budget.

President Dwight D. Eisenhower, in a 1954 message regarding funding of the Civil Service Retirement system, assured Federal workers that their "earned" civil service retirement pensions were more secure than private pensions because the U.S. government would not go out of business.

". . . no such eventuality faces the employees of the Federal Government. The retirement Act promises to make certain payments under specified conditions, and regardless of the size of the balance of the Retirement Fund at any particular time, these benefits will be paid because the promise to do so is backed by the Government. To assume otherwise is to call into question the full faith and credit of the United States Government."

President Reagan is blandly calling into question the full faith and credit of the Government by proposing that it not live up to its statutory COLA commitments. Ironically, the Federal Government has by law set standards for private pensions and created the Pension Guaranty Corporation to insure their payment. Yet it is proposing to renege on important provisions of its pensions for its own employees. In its zeal to cut taxes and budgets, the Reagan administration is acting irresponsibly. It has forgotten that pensions are a Government obligation to people who dedicated their lives to the Government.

President Reagan has not kept his word to Civil Service retirees. As Candidate for President, on October 3, 1980, he wrote the National Association of Retired Federal Employees that he did "not favor abandoning the . . . semi-annual indexing" of their Civil Service Retirement pensions. Just a few months later the President signed a bill to substitute once-a-year adjustments. Then in 1982 COLAS were put on a 13-month cycle—and retirees under age 62 were given half-COLAS. Now, in the 1984 budget, the President is proposing a complete denial of COLAS in fiscal year 1984—plus unspecified restructuring of adjustments in future years and sharp changes in benefits for near retirees. His aim is to cut CSR expenditures by $16 billion over 5 years. These savings would come out of pensions for retired employees to a considerable extent. The human factor cannot be found in these proposals.

Pensions for current employees under the CSR system would be utterly devastated by President Reagan's 1984 budget proposals which include pay freezes coupled with pay cuts in the form of increased deductions for benefits. To raise revenues for the 1983 budget, current workers are required to contribute 1.3 percent of Social Security covered wages for Medicare benefits—which already have been sharply cut and which would be further reduced under the 1984 budget proposals. They pay this tax now but will wait for Medicare until age 65. The president also proposes a 2 percent increase in CSR retirement deductions from 7 percent to 9 percent in 1984, plus a further 2 percent to a total of 11 percent in 1985. This would amount to an effective immediate out-of-pocket pay cut for Federal civil servants of more than 3 percent in 1984—in addition to the burden of ongoing inflation which might run from 4-6 percent per year. In effect, the President is proposing for the Civil service an effective real pay cut on the order of 7 or 8 percent in fiscal 1984 plus 2 percent or more in 1985, depending on what decisions are made for that year. This is a sure way to destroy the morale of the Civil Service.

For these sacrifices the reward to workers would be sharply reduced retirement rights—retirement phased over 10 years to age 65 instead of the long-standing regular retirement age of 62 or retirement on full pensions after 30 years of service at age 55 which was enacted during the 1960s. Finally, there would be no assurance of COLAS. This is a system of negative rewards for faithful service.

8. The planless coverage of new Federal employees under Social Security could destroy the civil service retirement system.—The President has endorsed the recommendations of the National Commission on Social Security that "all newly hired civilian" Federal employees be covered under Social Security. (p. 2-7) With respect to the details on how this would be done the Commission report (p. 2-8) only contains a very brief statement:

The National Commission believes than an independent supplemental retirement plan should be developed for the Federal new hires, which would be part of the Civil Service Retirement system (just as private employers have plans supplementing the OASDI program). It is important to note that present Federal employees will not be affected by this recommendation (and that the financing of their benefits over the long run will not be adversely affected).

There is obviously no coherent plan for the new supplementary CSR system. The Commission's proposal to cover all new civilian Federal hires under Social Security thus raises several sets of crucial problems:

(a) The Commission basically looked only at the financial problems of the Social Security system. Its report shows no evidence that it looked at the implications of its proposal for Federal personnel policy, its impact on the morale of civil servants and Government efficiency, nor at the benefit rights of "old" or "new" Civil Service employees.

(b) While the Commission report states that "present federal employees will not be affected by this recommendation (and that the financing of their benefits over the long run will not be adversely affected)" by this step of segregating new hires from present employees and retirees), these are mere words which imply intent. They are not accompanied by a specific plan to effectuate this intent.

For instance, a defined contribution plan along the line of the Stevens bill in the 97th Congress would seriously downgrade retirement protection of current employees as compared to present CSR benefits. Equally, current and future CSR retirees would be segregated into a terminating CSR system which would become dependent more and more on Federal appropriations as employees contributions dry up—and hence be increasingly subject to budget cutting pressures resulting in curtailments of earned benefits.

An alternate plan for different formulas within one CSR system covering both "old" and "new" employees along the lines of the one recommended in 1954 by the statutorily-established Committee on Retirement Policy for Federal Personnel would provide a greater degree of continuity and funding for the CSR system (Senate Doc. No. 89, Part 3, 83rd Congress, 2nd Session, May 20, 1954). For workers with Social Security that Committee's report proposed a reduced supplementary staff pension formula within the CSR system. The two layers together yielded about the same level of benefits as had been provided previously under the CSR system alone.

A better way to solve the problem of Social Security coverage for Federal Civil Service personnel might be along the following lines:

(a) Keep all Federal civilian workers under the CSR system as at present.

(b) Allow employees with sufficient career service to elect retirement and survivorship benefits under CSR.

(c) For employees who do not vest under CSR or do not elect to take CSR, contributions equivalent to Social Security contributions would be transferred to the Social Security funds before refunding the employee's share of CSR deductions.

(d) Employees qualifying for a CSR annuity who also qualify for Social Security on the basis of a partial career under this system would have their Social Security pension reduced pro-rata to eliminate the windfall element from short service and the weighted formula in Social Security.

The Congress would be well advised to defer the coverage of Federal civilian employees under Social Security until an appropriate Commission can develop a sensible and fair coordination plan. Otherwise, there is likely to be a mess.

9. Federal civilian employees are disadvantaged compared to military personnel.—The OMB's reported characterization of the CSR as an excessively liberal system is neither fair nor factually correct, even in comparison with good corporate systems. The most liberal and costly major Federal retirement "system" is for military personnel. Military personnel can retire on 50 percent of basic pay after 20 years at any age, e.g., as early as age 38 assuming entry into service at 18. After 30 years 75 percent of basic pay is provided at any age. Unlike CSR, military retirement is noncontributory and unfunded—is entirely dependent on General Fund appropriations. In addition, military service is covered under Social Security, so at age 62 or age 65 Social Security retirement becomes available with no offset against military retirement or the tax free VA compensation. The wage replacement ratios from this dual coverage for military retirees far exceed those of Civil Service employees with comparable service.

While the Reagan administration is attempting to chop CSR pensions severely, no similar efforts to bring the military retirement costs under control are publicized, except for a one-year deferral of COLAs. Historically, military personnel have maintained that their military retirement "pay" was earned by service. This is, of course, true also for Civil Service employees, who in addition contribute 7 percent toward their retirement for a lesser package of pensions.

CONCLUSIONS AND PROPOSED PRINCIPLES

The two major contributory Federal pension systems—Social Security and Civil Service Retirement—face unprecedented, unwarranted, multi-billion-dollar cutbacks by the Reagan administration, especially on the COLAS. The growth of outlays from these systems reflects their long-forseen maturation and the impact of Government-created inflation. Inflation is the chief and cruelest enemy of pensioners. They are caught in the retirement trap from which there is no release short of demise.

While Social Security has a fund shortfall this is a largely the result of the deep recession since 1981 due to the failure of "supply-side" economics to achieve the prosperity promised by the President. The Civil Service Retirement and Disability system under a 1969 law is now funded on a basis which stabilizes the growth of its unfunded accrued liability. The cash assets of the fund at the end of September 1982 were $96 billion.

The large projected overall Federal deficits which are being used by the Reagan administration as the excuse for pension cutbacks are not the fault of these pension systems. They are overwhelmingly the product of the administration's economic policies and its deliberate action in 1981 in pressing for huge reductions in Federal income and corporate taxes, which will total about $1.5 trillion through 1989 net of the 1982 tax increases. Sharp increases in Pentagon outlays under the President's $1.6 trillion initiative also add heavily to deficits. The obvious game plan of the administration has been to cut taxes in order to "cap" budget expenditures and then to force cuts in the social programs, including the earned pensions, while increasing defense outlays sharply.

The Reagan administration, with support of businessmen and interests such as Peter G. Peterson who are the chief beneficiaries of the fiscally irresponsible tax reductions enacted in 1981—the 25 percent income tax cut; the indexing of individual income taxes starting in 1985; and the gutting of the corporate tax—are engaged in a heartless and irresponsible effort to get the Congress to renege on statutory rights for retirees. They are using the projected deficits as a camouflage for their effort to defer COLAS and to change other statutorily provided, earned pension rights for some 40 million Federal beneficiaries, the overwhelming majority of whom receive negligible or no benefits from the 1981 Reagan tax cut.

Under the net 1981-82 Reagan tax cuts, 1.1 million taxpayers with incomes of over $80,000 will receive an estimated $250 billion in tax cuts from 1982-89. This amounts to about $225,000 per taxpayer. Mr. Peterson wants to make this up by cutting pensions for people whose total annual pensions typically run only ⅕ to ½ of the size of the annual tax reduction benefits which these rich people will receive. However, the rich industrialists have gotten their tax cuts, but they have cut their capital investment, contrary to President Reagan's predictions in 1981.

The earned pension rights must be saved! America can not be "mended" by taking pension money from low-income elderly who are out of the economic mainstream to make up for enormous tax cuts for the rich and the multi-national corporations. Such action will cruelly impact on the elderly, some of whom are below and many are close to the poverty line. The rest have every right to their earned benefits, because neither Social Security nor Civil Service Retirement have ever been presented as means-tested programs.

These pensions are rights. It is up the Congress to preserve and protect the payment of earned benefits fully in accordance with the statutory policies which Congresses of both parties have followed since the early 1930s Reindustrialization and rearmament should not be undertaken on the backs of the elderly who have done their share to build this country and/or invested their lives in the Government service.

More specifically the following principles are suggested as appropriate guides for evaluating President Reagan's proposals regarding the contributory Social Security and Civil Service Retirement Systems:

I. Statutory Government commitments for earned, contributory pensions must be paid in full to retired people.—Social Security and Civil Service Retirement pensions are earned rights based on service and contributions and funded by trust funds under duly-enacted U.S. statutes. The workers and families dependent on the systems have regarded statutory pensions as contracts backed by the full faith and credit of the Government—as President Eisenhower officially stated to Congress and to Federal employees in 1954. The U.S. Government has created programs to set standards for and to financially guarantee private pensions. Surely it should honor its statutory pension commitments to its own former employees. For it to renege is irresponsible. It wil destroy public confidence in the pension programs and in the word of the Government. The statutory provisions under which workers retired and were awarded Federal pensions should be "grandfathered" for them. The only exceptions should be clear error in the law or fraud.

II. Cost-of-living adjustments are vital for the modest public pensions.—The canard that "a rising tide lifts all boats" is fallacious with respect to the economics of retired aged. Elderly retired people are no longer in the economic waters; they are high on a arid economic beach, for hardly any of them can go back to their earlier or equivalent positions. Moreover, in the current economy in which inflation has not been permanently conquered, the financial markets show existence of a fear that the tide of inflation will again run strong if the economy resurges. Even the recent 4 percent rate of inflation would be hurtfall to elderly pensioners if they lost their cost-of-living adjustments for any significant period of time—and inflation would be very damaging for all of them if inflation built up. The elderly depend on the pensions that they earned in prior years and the Government must exercise special care to protect the pension rights of the elderly. Their living standards were sharply reduced in most cases when they retired and they depend on cost-of-living adjustments to keep from sliding into lower and lower levels. Apart from the right to a pension itself, the COLA provisions under SS and CSR are the most important rights retirees have. It is unethical for the Government to hold out pension plans which include permanent COLA provisions and then to tamper with COLA and/or other provisions just because it prefers to cut taxes instead. Without a COLA, CSR retirees starting with an average $1,000 monthly pension would have a real purchasing power in 10 years of $558 with a 6 percent inflation and only $312 in 20 years.

III. Awarded pensions should be fully honored and any changes in pension provisions should be made only with adequately deferred effective dates.—Given the intrinsically contractual nature of contributory, service-based pensions, the Government should as a controlling principle fully honor for the rest of their limited lives the commitments which it makes to retirees—and it should not make commitments which it is not prepared to honor fully.

However, in multi-decade pension arrangements fundamental demographic and economic conditions may require structural pension changes in the pension plans for active, unretired workers. Such changes should, however, be made objectively on the basis of thoroughly evaluated and widely-publicized procedures—and, most important of all, they should be made effective with a minimum of 10 years delay so workers and their families will have adequate time to change their life plans. Changes dreamed up by the OMB in the hurly-burly of a budget season to project a budget savings are likely to be damaging to the fundamental purpose of the pensions.

IV. Pensioners should not be misled by being told that their pensions are not being cut when COLA deferments are cutting their real pensions.—It is deception for policy makers to tell aged pensioners on TV or in their mailings to constitutents that the administration is not cutting their pensions at the same time that it is preparing schemes to delay, cap, or cut the cost-of-living adjustments on their pensions. It is the *real* purchasing power of pension money that counts. If indexing of the budget for defense outlays and indexing of income taxes for the rich are supported by the President, he ought to be forthright enough to tell the elderly squarely that deferements of COLAS on pensions and other benefits for lower income people means that their real incomes will be reduced. They should also be told how much the reductions are.

Pensioners should be sheltered from inflation in inflationary times like these because most elderly have low or modest incomes. Median incomes of elderly persons over age 65 are only 40 percent of the incomes of people in the working years 45–54. Much misplaced effort has been devoted to criticizing the present COLA index, mostly in an effort to find a rationale to cut the budget.

The present BLS Consumer Price Index is the best available measure of the effect of inflation on the budgets of consumers. Indeed, the aged probably are shortchanged even on this basis because of lags in adjustments and because of their disproportionately large outlays for rapidly rising items such as medical care and fuel. The CPI basis for COLA adjustments should be retained until a special index for the elderly can be developed and adequately tested.

V. As trustee of the pension trust funds the Government bears responsibility for financing them adequately.—The contributory Social Security and Civil Service Retirement systems are financed through trust funds to finance them on a stable, long-term basis as befits intergenerational programs. It was never intended by the Congress that these trust fund programs be subjected to budgetary cutbacks in the manner that has occurred since they were put in the unified budget in fiscal year 1969. The Social Security Reform Commission has proposed that Social Security be removed from the budget.

It is the responsibility of the President and the Congress to provide adequate taxes and contributions to finance the benefits committed by statute to the retired people and the current workers covered by these systems who expect to retire. It should be evident to the public that the Secretaries of the Treasury who served as Trustees of the Social Security trust funds in the years 1961 to 1979, and who now have lent their names to the Bipartism Budget Appeal—Dillon, Fowler, Connally, Simon and Blumenthal—failed to carry out their trusteeship responsibilities adequately when they were in office and let these funds go downhill in relation to rising outlays. Their current proposals for large reductions in earned benefits may explain their earlier weak performance—a lack of sympathy with public pensions.

Historically, the U.S. Government has promised pensions but has not financed either the Social Security or the Civil Service Retirement systems adequately—at least until 1969 for the CSR system. It therefore has responsiblity to raise payroll taxes for Social Security to fund benefits and/or to provide general fund aid to enable the system to pay them.

Social Security payroll taxes have become less regressive now that the covered wage base is indexed than they were in earlier years when the covered wage level was frozen at $4,800 for many years. However, the rates have increased and the tax is still levied on wages and salaries (which are declining as a share of total personal income) and the earnings of the self-employed. An equitable and economically sound step would be to broaden the Social Security tax base to include more kinds of personal income—and to raise the covered income limits to include a higher proportion of the covered incomes in the taxable category, while perhaps adding another lower bend at the top of the benefit formula. One possibility would be to (a) cover all types of personal income except public transfer payments, (b) raise the taxable limit to cover 99 percent of the covered tax base, and (c) add an upper bend in the benefit formula to yield, say, 10 percent benefit on higher level average covered wages. Such a step would add substantially to the covered wage base to raise needed Social Security revenues by a type of flat-rate tax formula which might permit present tax rates to be frozen or even reduced. (See U.S. Statistical Abstract, 1981, p. 427 for composition of personal income.)

Present statutory funding arrangements are adequate for Civil Service Retirement to the extent that the unfunded liability is being stabilized. It is unfair to Federal employees for the Reagan administration to try to shift the burden to the workers by raising their CSR payroll deductions by 57 percent in two years while cutting the retirement benefits they would earn.

VI. A special commission should be created to develop a plan for coordinating CSR and SS.—The cryptic recommendation by the Social Security Reform Commission that new Federal employees be put under Social Security leaves many unexplained questions before such action can be accepted.

What impact will such action have on incentives and rewards for career service in the Government? What will be the organizational location and of the supplementary CSR system and the configuration of the supplementary staff retirement formulas? Will the new supplementary staff pension plan be in the CSR system, as the Commission implies? How will the staff pensions be financed, e.g., in industry the employers finance most supplementary plans? What guarantees will be made and implemented to assure that retirees under CSR and current career employees who are left in the CSR system will receive full payment of earned pensions, including the very important cost-of-living adjustments? Will the Government fully fund the accrued CSR liability? Should the civilian employees have their staff pensions reduced upon coverage under Social Security, e.g., the military personnel were given full military retirement pay plus full Social Security and have much higher pay replacement rations than CSR retirees? Will Members of Congress, law enforcement, Foreign Service Personnel, and Judges go under Social Security? Will the principle of the CSR defined benefits formula be kept?

Until such questions are answered fully and objectively by an expert and broadly representative Commission, Social Security coverage for civilian Federal employees poses serious risks for active employees and for their retired predecessors who depend on the full and fully guaranteed continuity of their earned retirement pay. The recommendations of the Reagan administration in its 1984 budget show that it puts reduction of CSR ahead of fairness and recognition of earned retirement rights. Such a posture is injurious to the Federal career service and to the people who have devoted their lives to the public service. It scapegoats them improperly and unfairly. They must fight for their rights and insist on full detailing of the terms of the staff pensions which are to accompany Social Security coverage if this is the policy course the Congress elects. Otherwise, CSR is likely to be destroyed and many fine public servants who devoted their lives to serving in the Government will be denied their due rights and will be hurt economically.

As discussed above in the analytic section, there are various possible models for coordinating SS and CSR plans. The Congress might well defer putting civil servants under SS until it has a firm plan before it. Such a plan should be presented to the Legislative Committees which now have cognizance over the CSR system. The Congress should, by statutory provision, similar to its 1971 act creating the Railroad Retirement Commission, form a special, representative commission to make an expert study and develop a sound plan which will adequately serve the needs of the career service and fully protect the rights of CSR retirees and current and future active employees.

VI. The proposed pension cuts result from the President's overt policies and they should be reversed by the Congress.—From a budgetary standpoint there is every reason for the Congress to disregard the President's cry of "wolf" about the large projected budget deficits as his reason for axing COLA's for Social Security and Civil Service Retirement pensioners. President Reagan entirely caused these deficits by his deficient economic policies and his own calculated policies of cutting taxes in the net by some $1.5 trillion for the years 1982-1989 while simultaneously increasing proposed defense outlays by $1.3 trillion (over the 1980 base) during this same period. He is the first President in this century (indeed, probably in our history) who has launched a major rearmaments program while simultaneously cutting taxes. The President's allocation of $2.8 trillion for the years 1981–1989 to tax cuts and increase defense outlays is questionable national policy. This sum far exceeds the sum of projected "structural" deficits for these years.

The President's tax cuts overwhelmingly benefit the rich—while his proposed pension and other social program cuts hit the low-income and moderate income people. Yet, while sending up a 1984 budget to cut pensions for the ordinary people, he announced to a business group that his personal desire is to eliminate the corporate tax completely. He is utterly unfair to the poor and the middle class. His not-so-hidden goal is to reverse the social progress of the last 40 years by destroying the Government's ability-to-pay revenue raising system while decimating the social programs. These policies have not proved conducive to economic recovery. The rich have not used their tax savings to spur the promised reindustrialization while the poor people have had their purchasing power cut and are threatened with further unconscionable reductions which reduce effective consumer demand.

The Congress, however, can still readily correct several of the major errors of the 1981 Economic Recovery Tax Act. It can cancel the 10 percent individual income tax reduction scheduled for July 1, 1983 and and also the scheduled indexing of the personal income tax starting in 1985. It can take back some of the wantonly excessive depreciation allowances which decimated the corporate income tax. It can also reduce the President's proposed inflationary, excessive increases in defense expenditures. Such actions would sharply reduce the projected deficits in future years—and obviate the President's proposals for taxing the elderly by the device of denying COLAs on Social Security and Civil Service Retirement pensions and reducing their Medicare protection. There would also be adequate room for adding necessary Social Security taxes to cure the shortfall in this system.

By these means the Congress can preserve the earned, statutory pension rights of the elderly—along with the other jeopardized social programs which benefit the poor and the lower middle class. In short, the sacrifices which President Reagan wants to impose on the elderly and other low-income groups through his severe 1984 budget cuts are entirely the product of his calculated policies, are unnecessary, are socially destructive, and are counterproductive to economic recovery.

VIII. Contractual rights.—The essence of retirement systems is confidence that the earned benefits provided by the plan will be paid in full to retired workers. The maintenance of confidence must be guarded zealously, especially in trust fund plans such as Social Security which has only a contingency reserve and the Civil Service Retirement system which the U.S. Government has not fully funded.

The surest way to destroy confidence in these fundamental social compacts to provide earned pensions for the elderly is to allow the Reagan administration to succeed in its attempts to cut these programs as much as it can get away with cutting them through its unremitting efforts, e.g., to defer and reduce COLAs. Once precedents for significant cuts are set, there will be no stopping more cuts. After all, Mr. Reagan has in the past shown his disregard for the sanctity of the Social Security compact by suggesting that Social Security be made voluntary—which, of course, would destroy the system of social insurance against the risks which this system insures. His pronouncements in past years show that he is prepared, if the opportunity presents itself, to abrogate Social Security commitments in a callous breach of faith. His 1984 Budget proposals would devastate the Civil Service Retirement system.

The President's repeated statements to the elderly in the last 2 years that he is not going to cut their "present benefits" while he is preparing and endorsing proposals to cut their real benefits by deferring or capping COLAs is indicative of willingness to use the power of the Presidental communications system to mislead and confuse the elderly about the administration's real intentions to undermine the well-being of the elderly. Such conduct is not a hallmark of trustworthy government.

There is no surer way to impoverish public pensioners than to subject them to inflation. The dollar which bought 100 cents worth of consumer goods and services in 1972 had a real value in 1982 of only 44 cents because of inflation. Moreover, despite the temporary recent lull in prices, the financial markets fear the resurgence of inflation. The elderly with their reduced incomes need protection against inflation. The COLA provisions are one of the most important rights Social Security and Civil Service retirees have.

Social Security, Civil Service Retirement, and other contributory Federal pension programs need a Congressional reaffirmation that the earned pensions provided in the statutes will be paid to retired people in accordance with the statutes—that vital rights such as the COLA will not be taken away in old age by changes in the law which result in a breach of faith in the Government's compact with the people who contributed to their system in the belief that they were providing for their security in old age. The surest and fairest way to build confidence in these systems is for the Congress to turn down the Reagan administration's proposals for deferral of COLAs—and to provide by law that Federal pensions rights in contributory systems are to have the legal status of contracts once persons have been awarded their pensions and retired.

Likewise, the Congress should establish the principle that it will not enact cutbacks in vested pension rights in contributory Federal pensions with less than a 10-year effective date. Such provisions will assure that current workers will have due notice about pension changes affecting their lives—and that defenseless retired workers will not have their pension rights abrogated and be left "high and dry" by changes in the law after they have retired or are close to retirement.

NEWARK, N.Y., *January 1983.*

DEAR CONGRESSMAN HORTON: I would like you to study this proposal which I believe could be in your interest and for the good of our country.

This proposal could assist in the problems of unemployment and also could improve the Social Security program at this time.

I believe this is the time to lower the retiring age to 60 to 50 percent of the benefit and those choosing age 61 at 60 percent, age 62 (70 percent), age 63 (80 percent), 64 at 90 percent. At the present, age 62 retires at 80 percent, 63 at 87 percent and age 64 at 94 percent. The cost would be minimal at first and savings in the long run.

The main benefit would be that many people with good pensions, such as public employees, (state and local), teachers and many employees in large industries would retire early leaving openings for unemployed people. There would be the same work force to pay into the Social Security system as at the present.

All I ask is that this be given the utmost consideration and that a very serious study be done.

Sincerely,

FRAN MASON.

PHILADELPHIA, PA., *February 1, 1983.*

Hon. MR. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee, Washington, D.C.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I am submitting this brief on Social Security to the House Ways and Means Committee and I request that it be made an official part of the Hearings on Social Security Reform being held February 1, 2, and 3, 1983 at 1100 Longworth House Office Building.

For the record, my name is Charles F. McLaughlin, age 67. I am a U.S. Civil Service annuitant. I am not entitled to a Social Security benefit, though I hope to obtain such entitlement.

I am submitting this brief on behalf of myself and in the interest of current and future Social Security beneficiaries and employers and employees.

The National Commission on Social Security Reform has recently submitted to President Reagan and to Congress a package of benefit curbs and revenue raisers to shore up the financial condition of the Social Security system over the short and long terms. One of the recommendations in the commission's report to the President and to Congress is to tax one-half of the benefits of Social Security beneficiaries whose adjusted gross income (for federal income tax), exclusive of the Social Security benefit, exceeds $20,000 if a single taxpayer or $25,000 if a married couple and filing jointly.

That recommendation, in my judgment, violates the principle of equity on three counts: One, it is inequitable as among Social Security beneficiaries, in that the Social Security benefits of some beneficiaries would be made subject to the federal income tax and the benefits of other beneficiaries would not. Two, it is inequitable as between low-income Social Security beneficiaries and low-income beneficiaries of federal pensions, in that the Social Security benefits of the former would not be subjected to the federal income tax and the Civil Service annuities of the latter would continue to be subject to the tax. Three, it is inequitable as between low-income Social Security beneficiaries and low-income workers in the U.S. work force, in that the Social Security benefits of the former would not be subjected to the federal income tax and the wages of the low-income workers will continue to be subject to the tax.

The principle of equity would not be violated if Social Security primary and auxiliary benefits were taxed by the United States in excess of contributions in the same manner as federal pensions. I suggest that bills now in Congress to reform Social Security contain a provision reading: "The Social Security benefits payable from the Old-Age and Survivors Insurance Trust Fund and from the Disability Insurance Trust Fund under the Social Security Act of 1935, as amended, are subject to the federal income tax in the same manner as U.S. Civil Service annuities."

Full taxation of benefits would make unnecessary a freeze or reduction in the cost-of-living adjustments to Social Security benefits, would make unnecessary an increase in the scheduled Social Security payroll tax rates, would make unnecessary most or all of the other solvency measures recommended in the report of the National Commission on Social Security Reform to the President and Congress.

Eight years of full taxation of Social Security benefits, 1984 to 1991, with the money raised recycled into the Social Security trust funds, would yield approximately $200 billion to the funds, which is more than the $169 billion in benefit reductions and revenue raisers that the package recommended by the National Commission on Social Security Reform would produce.

Economically and equitably, full taxation of benefits appears to me to be the best way to shore up Social Security over the short and intermediate term—best for the elderly poor and best for those who pay the payroll taxes that keep the Social Security benefit checks flowing. A couple both 65 or older pay no federal income tax on the first $7,400 of adjusted gross income.

Continuation of taxation beyond 1990 would build up trust fund reserves for the long term.

Thank you.

CHARLES F. MCLAUGHLIN.

STATEMENT OF JAMES MORGAN, UNIVERSITY OF MICHIGAN

SUMMARY

We can keep the contributory nature of Social Security, by which each generation's benefits from now on are justified by its own past contributions, without insisting on the absurd pay-as-you-go straightjacket which is dominating the current discussion. No private pension scheme, funded or unfunded, has such a balance between in-payments and out-payments. Any fair system involving long delays between payments and benefits must add an interest accrual in calculating the benefits and Social Security is no exception.

Since Social Security is unfunded, for good reasons, how can it provide fair benefits? In the past it has done so by mingling the accounts of different generations and taking advantage of the fact that each younger generation was larger and earned higher wages. (The interest rate "earned" under the pay-as-you-go rule turns out to equal the sum of the rate of growth of population and the rate of growth of real wages.) In addition, inflation raised both benefits and current wages and contributions, except on rare occasions when prices rose faster than wages.

But logically, interest on the unfunded liability of the system is a general government obligation, payable from general revenues so as not to ruin the fairness of the system for future generations. If growth rates recover and wages start rising faster than prices, there should be an excess of payroll taxes over current benefits for most of the rest of this century. This surplus should go into the general fund, and not be used for added benefits. Only in the next century might there be a major persistent "drain" on general funds, and that can be planned for and managed with proper fiscal policies. Such "surpluses" of "deficits" have nothing to do with the equity or adequacy or fairness of Social Security.

The implication of this is that Congress should insist that the payroll tax and benefit structure be set so as to assure future generations a fair rate of return on their contributions, comparable with the pension systems of Federal employees or the military, and with private or company pensions. Only in this way can we get rid of the misunderstanding and the intergenerational hostility it is creating. Political discussion then continues on various redistribution within each generation between the lucky and the unlucky, men and women, etc., without any more intergenerational hostility. In fact the present structure is very close to meeting the criterion, so there is not crisis in reality, only misunderstanding.

EXPLANATION

Discussions about Social Security have been plagued by a multiplicity of viewpoints, an unwillingness to consider a series of different problems individually, and a tendency to look for patch-up methods rather than to reexamine some basic premises.

The perception of problems and their appropriate solutions have been influenced by the specialized backgrounds of particular critics--be they political, sociological, or economic. Political concerns have required justifying additional benefits by concurrent increases in the payroll tax, and insisting that Social Security involves a basic social insurance element; this led to the definition of the pay-as-you-go "principale." Another political viewpoint decries the growing role of government and has thus fought the system, attempting to keep it at a minimal level.

Sociological concerns with intra-generational equity focused on the treatment of women in a changing world, minimum benefits for the poor, and possible excesses from double or triple coverage for "double-dippers."

Economists' interests focused on a series of what can only be described as "side problems"—the effects of Social Security on saving, on retirement, and on fiscal flows, and the problems with the concept of pay-as-you-go when there are irregular population changes and inflation. These concerns were so parochial that appealing findings on saving that were based on computer errors were replicated for some years rather than corrected, and models examining the effects of Social Security on retirement failed to pay attention to the actual mechanics of the benefit determination. (Since most people's earnings keep growing until they retire, another year of work allows adding a high year and dropping an early low year in calculating average covered earnings. This combines with the actuarial adjustment the economists focused on.) Recent work has taken some steps toward correcting earlier misconceptions. We are indebted to Alan Blinder and a few others for showing quantitatively that for most people the Social Security system offers a bonus for continuing to work, and for explaining why it is private pensions that mostly encourage early retirment (Blinder, 1980, 1981, Lazear, 1982). Some other recent papers indicate that the evidence of the effects of Social Security on saving is abmiguous. These are not the main problems.

In addition, fascination with an algebraic trick—the golden rule theorem—glorified pay-as-you-go instead of clarifying the real economics of an unfunded but contributory transfer system. The logic of pay-as-you-go showing that in normal times it coincided with a fair retirement benefit as though interest had been accrued can be used in reverse to prove that in these same normal circumstances, a system that guarantees a fair return to each generation will not produce any large current "surpluses" or "deficits".

Finally, a myopic focus on current and prospective differences between aggregate annual contributions (payroll taxes) and benefit payments, rather than on understanding the system, has led to a proliferation of niggling proposals to patch things up—raise the payroll tax, cut some benefits, change the formula for indexing benefits, raise the retirement age, and tax some or all of the benefits. Proponents of the last of these, for example, point out that it would make sense to tax only half the benefits, reflecting the employer contribution, since the other half had already been taxed, without noticing that in most pensions one must identify earned interest and tax it.

The system can be accused of having trillions in unfunded pension liability, which it has, for good and sufficient reasons. We would not want the government investing such sums in private industry, nor would we want the fiscal effects of attempting to create such a fund. Starting in the depression, we paid benefits to many who had contributed little or nothing, instead of building up a trust fund first, for obvious reasons. We were also told by the economists that if the population grew steadily or real wages grew, we could be sure that the payments of working generations would cover the benefits of the retired generations as though each generation's contributions were being returned to it with interest. In fact, in equilibrium, pay-as-you-go would produce the same benefits as a Federal system that accured interest at a rate equal to the sum of the rate of growth of population plus the rate of growth of real wages (Aaron, 1982). So pay-as-you-go had an economic justification to add to the political benefit of allowing periodic improvements matched by increases in the payroll tax. We pretended to keep the system honest as contributory social insurance.

But inflation and population changes require an agonizing reappraisal combined with good economic analysis of the system, and a careful separation of the problems. We cannot afford to solve one problem by creating a worse one, and to anticipate a bit, we have reached the end of the line in raising payroll taxes or cutting benefits, if we are to retain what voluntary aspects remain of the system. The line-up of private organizations applying to get out is escalating. Comparisons are also inevitable with military pensions and Federal and employer pensions.

We are indebed to a political sociologist, Harold Wilensky, for pointout that the public acceptability of government taxes and spending, or trasnfer programs, does not depend on their size or extent. He shows an amazing lack of correlating between Social Security taxes and measures of tax-welfare backlash across the countries of the world (Wilensky, 1976).

The public acceptability of any program requires that it be seen as fair. In the case of Social Security that means that contributions and benefits have some equitable relationship between generations and within generations. It is important to distinguish the two. Much of the discussion of Social Security has focused on intra-generational redistribution, between men and women, pool receiving minimum benefits and non-poor, double-dippers with multiple government pensions and others. And much of the irrelevantly academic discussion of Social Security has focused on the intergenerational transfer aspects of the unfunded liability, which is similar to those of war debts.

I want to maintain that it is intergenerational equity in a special sense that is crucial for the ulitmate acceptability and survival of the system. We should be able to maintain that in general and approximately, each generation as a whole can be expected to contribute enough over its average lifetime to justify its own expected benefits, if they were credited with an implied fair interest return on their contributions—a return equal to a fair market interest rate, namely 2 or 3 percent plus the rate of inflation. Actuaries may wince, but approximations can be made. We have simplified the problem by arguing for a real implied rate of return, with unknown future inflation changing benefits, current contributions, and implied interest accumulations. I am not arguing for creating a trust fund, only for a logical system that will determine the taxes and benefits in a justifiable way, free from political manipulation.

Only when the problem of intergenerational equity is put to rest can we afford to start tackling others. The issues of intragenerational redistributional equity can then be solved within the aggregate constraints. Some problems are easy because they are insurance-type redistributions between the lucky and the unlucky—such as disability benefits or survivors benefits. Some are heavily value-laden because they are welfare-type redistributions to the poor or those with irregular work histories—the minimum benefits. Other arise from the changing roles of women and families. Many of the worst problems are gradually disappearing. The increase in the level of covered earnings, the indexing of ancient earnings for subsequent inflation, and the increase in the number of years that must be included in calculating average covered earnings—soon to be 35—are reducing the bonanzas to people who have also had careers in the Federal government or who have had short working lives. That reduction affects women more than men. The indexing of covered earnings of early years for inflation benefits those with long working lives and years of contribution, who are mostly men, since women are more likely to have started their working lives late.

But let me come bank to the main issue—intergenerational equity and equity relative to those in other retirement systems. It requires, to put it plainly, abandoning the pay-as-you-go rule. There will have to be years when benefits payments exceed aggregate contributions, and other years when the reverse is true. The fiscal aspects of this are another and separable problem, manageable by known policies.

A little economics is required here. Imagine first an individual, then a whole country. Suppose the individual works for 40 years and has a 15-year expected retirement life. Historically, money put aside for retirement has earned 3 percent in real terms—assume no inflation for the nonce. Even at this low rate, more than half of what the individual gets back is interest! Now aggregate to a whole country with a stable population and stable prices, where the system has been going for years. The aggregate benefit payments each year (including that interest) would be more than twice the aggregate savings contributions. With inflation and correspondingly higher interest accumulations, that ratio becomes much larger. This would be true with individual, or company, or government schemes. Why then should we have bought the pay-as-you-go notion that the current contributions of working generations should equal the benefit payments of retired generations? Worse still, why do we insist on retaining that rule when it is palpably absurd? We cannot count on steady growth in population and in real wages to make pay-as-you-go appear to work.

Another way to appreciate the absurdity of pay-as-you-go is to note that the implied rate of return on an average individual's contribution to Social Security is dropping for successive generations and for todays young is probably less than 4 percent (Aaron, 1982). The multiple coverages, and the guaranteed inflation hedge still make Social Security look good, or did until the loosening of market interest rates that now allow an IRA that does better than inflation. The practical implication is that any further increases in payroll taxes or reduction in benefits will threaten the voluntary aspects of the system. Any such transfer system requires the acquiescence of the voters. The Social Security System is actually voluntary—in the asymetrical sense that some can get out but never get back in—for non-profit institutions, and state and local government employees. There is increasing activity among these groups to get out, even though it requires a two-year wait and is legally an ireversible decision. From 1950 to 1980 only 159 non-profit organizations got out, but there are currently some 723 on application to get out and this may be only the tip of the iceberg. Railroad workers, and federal government employees are out, and unwilling to be moved in under present threats to Social Security.

What should be done? We should set the payroll tax and the benefit structure so that the implied actuarial expected rate of return in real dollars is 2 percent or 3 percent, then let the general revenue accept or pay any difference between the aggregate contributions and aggregate benefits in each year. Economists and actuaries can forecast the net flows and incorporate them with the rest of the fiscal flows which need to be balanced. The logic of course is that demands on the general revenue reflect implied interest on the past contributions which the government "borrowed" to pay earlier excess benefits, and are part of the national debt like any other, except that this debt calls for indexed interest. The very algebra that suggested that in normal times pay-as-you-go would produce benefits as though a real interest had been added, implies in reverse that fixing the implied interest credit would not lead to any very large "surpluses" or "deficits" except in unusual circumstances. Legally this might require something like the Vandenberg-Murray proviso that was in the law from 1944 to 1950, but more balanced, calling on the general funds to accept any annual surpluses of Social Security receipts over benefits paid, and to pay benefits in excess of that year's contributions.

Once we have fixed that element of the system, the implied interest rate, and have assured its ethical and political justification, the other problems can be taken up and battled out. Intragenerational equity decisions will clearly involve trade-offs. If women get more, someone must get less; if minimum benefits are allowed to erode, more will be available for other benefits, though the general budget might have more welfare expenditures. Splitting husband-wife contributions yearly so they build equal benefit rights would be no problem. Taxing benefits to reflect untaxed employer contributions would not affect the system, nor, probably, its perceived equity, but would increase general government revenues.

What about the changing age distribution and threatened increasing dependency? That is not Social Security's problem any more than it is a problem for private pensions. It is exaggerated [illegible] any case since the issue is not the changing ratio of retired to working age people, but the ratio of total output to total needs, which depends on the number [illegible] children, the number of retired, the fraction of women working, the fraction of time they work, and the output per person-hour. Aside from some problem with the flow of funds, the real issue about changing age distribution is the need for increasing productivity, which means a policy to encourage investment, private and public, during the near future when we have the highest ratio of workers to eaters in history, in anticipation of a future when there will be more older people.

In sum, a careful economic analysis reveals that there is no justification for pay-as-you-go economically, and a superior substitute for it politically. Once we can assure intergenerational equity—each generation from now on paying its own way in a basic sense—then all the other problems become manageable, the debate systematic, and some of the problems clearer. Only in this way can we stop the mounting sense of intergenerational conflict and hostility, based mostly on misunderstanding—and get to the real policy issues.

Clearly there is a massive task of public education, requiring political leadership that can focus attention on the main problem—intergenerational equity—and refuse to be distracted by secondary problems and partial "solutions."

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APPENDIX

SOME QUESTIONS AND ANSWERS

1. Can actuaries really say whether a set of taxes and benefit rules will result in any particular implied rate of interest return?

They can, with enough accuracy to assure us the system is fair. Perfection is not necessary.

2. But what about unpredictable future inflation?

The actuarial calculations are done in "real terms", at present prices. The cost-of-living adjustment in the benefits automatically implies a higher interest return on contributions when inflation is producing higher market interest rates. So the inflation adjustment is not charity, but a justifiable crediting of higher market interest rates when inflation makes them higher.

3. How do we make the transition from pay-as-you-go to fair-return-on-contributions?

We can only do this for future retirees, and the present schedules of taxes and benefits are so close to fair that little change will be required.

4. But what about the impact on the federal deficit or surplus?

We should not let aggregate fiscal considerations disrupt the equity of the Social Security Sytem. In any case, the net impact will be predictable and can be incorporated into budget planning, and is likely to be relatively small until the next century, and small even then if we have growing real wages.

5. Isn't there really a kind of intergenerational transfer anyway if general funds (taxes paid by those paying taxes) cover part of the current benefit payments?

Only in the sense that interest on the government debt, incurred to fight wars or depressions, is paid by current generations. Very generous payments to early beneficiaries in Social Security (and not building a big trust fund) are the same as having the government borrow for that purpose and general fund contributions to Social Security are implied interest on that debt.

6. Didn't older generations get far more than they paid for in Social Security?

Yes, and the pay-as-you-go illusion obscured that fact. But we cannot very well take back what we have given or promised those older people.

7. Why is no one, even the recent Presidential Commission (Greenspan Commission) saying what you are saying?

Presumably they are so concerned about effects on the Federal deficit that they are willing to let that dominate any concern about fairness of the Social Security system.

8. Shouldn't everyone be in one uniform system, including the military and the Federal employees?

Perhaps so, but we must keep the various systems comparable in the meantime, in all fairness to those in Social Security, and in order to make it politically feasible to bring others into the system.

9. Why should Social Security adjust for inflation, private pensions have not done so?

No one expected inflation, and it is very likely that in the future private pensions will, at a minimum, provide benefits based on what market returns provide on contributions. Those returns increase during inflation. Employees have learned that "defined benefit plans" are no good if the employer gets the high interest returns during inflation, but the benefits are not adjusted.

10. Does all this mean that every individual is guaranteed to get his contributions back with interest? Like a private annuity?

No, there are more benefits to those who live longer (and need it) and various insurance-type redistributions are possible within each generation. What is crucial is that they be within each generation, to avoid hostility and resentment. When we add the disability, survivors, and medical benefits, there is even more redistribution—from the lucky to the unlucky—but we all believe in such insurance-type redistributions.

11. Aren't there still people getting more than they deserve in the Social Security system—double-dippers and all that?

The minimum benefits are being eroded by inflation. And the increasing number of years that must be counted in calculating benefits are reducing the benefits from being in more than one retirement system. Small reforms are needed but they are secondary.

12. What about the other parts of Social Security which account for forty percent of its costs: medicare, disability, and survivor benefits?

The same general rule, that each generation pay for its own benefits, can be applied. Only medicare requires forecasts of the future, since the disability and survivor benefits can be considered the cost of current insurance, with current rates to match (except that they would have to be averaged over a generations' age unless we were to go to different Social Security taxes for those of different ages).

13. What about taxing Social Security benefits?

In a private annuity, untaxed, (tax-deferred) contributions and accrued interest are taxable, and the same principle could apply to Social Security. It might make it easier to see why it is justifiable to take general funds money to help pay Social Security benefits, since those tax revenues would go to the general fund, not directly to Social Security. (You cannot separate income taxes according to which income source produced them.) But it makes no sense to argue that there need be any connection between this tax revenue and the flow of funds between the general fund and Social Security.

14. Is it true that the proportion of the aged who are in poverty has fallen rapidly, and that their average Social Security benefits have gone up much faster than prices?

True but misleading. Most of the aged of twenty years ago are dead, and have been replaced by younger generations who earned more when they worked, contributed more to Social Security, had longer after the depression to restore their savings, etc. There was some overadjustment for inflation for a few years, but its effect is vastly exaggerated by the usual statistics quoted.

15. Is it true that even now most people get back everything they contributed to Social Security in the first two or three years of their retirement?

Perhaps, particularly if you ignore the employer's contribution, but again misleading. If you contribute to an IRA for 45 years, and get a pension for fifteen years of retired life and earn 6 percent on your money, you will get back 7.3 times what you put in, the rest being interest. Would you consider that interest a contribution from others still paying into the financial institution handling the IRA? More important, these ratios are declining for each succeeding generation and the really revealing number, the implied real rate of interest on contributions, is now down below 4 for future generations of retirees.

STATEMENT OF WILLIAM H. MELLOR III, ACTING PRESIDENT AND CHIEF LEGAL OFFICER AND CLINT BOLICK, ATTORNEY AT LAW, ON BEHALF OF THE MOUNTAIN STATES LEGAL FOUNDATION

I. INTEREST OF MOUNTAIN STATES LEGAL FOUNDATION

Mountain States Legal Foundation (MSLF) is a non-profit, membership, public interest law center dedicated to defending the principles embodied in the Constitution and reflected in the American system of government. Since its founding in 1977, MSLF has brought greater balance to the judicial process by advocating the values and concepts of individual freedom, private property rights, and the free enterprise system.

MSLF plays a vital public interest role by giving focus to important legal and policy issues. Its resources are committed to such efforts as defending individuals and the private sector from illegal and excessive governmental regulations; holding government accountable to the citizenry and the rule of law; insuring public access to and proper management of public lands; and protecting the constitutional rights of individuals.

The Foundation receives all of its support from voluntary contributions, and does not solicit or accept government funds. The Foundation is exempted from general federal taxation pursuant to 26 U.S.C. § 503(c), and from Social Security taxes under 42 U.S.C. § 410(a)(8)(B). The National Commission on Social Security Reform (the

Commission) has recommended that non-profit organizations and their employees be required to join the Social Security system effective January 1, 1984. In this written testimony, MSLF presents its opposition to this recommendation.

II. SUMMARY OF THE TESTIMONY

MSLF's opposition to the elimination of the non-profit exemption from Social Security taxes is fully consistent with its principled commitment to limited, responsibile government and to the vitality of private sector alternatives. Imposition of Social Security taxes on non-profit organizations like MSLF will have a dramatic detrimental impact on their ability to provide important services in the public interest. Further, such a change is inconsistent with the goal of achieving long-range financial integrity and stability for the Social Security system.

This testimony contains two parts. First, the tremendous burden which Social Security taxes will impose on MSLF and its employees is illustrated. Second, public policy arguments against extension of Social Security taxes are presented. MSLF respectfully presents this testimony in the hope that it will demonstrate that the Commission's proposal, which could cause irreversible damage to nonprofit organizations and the vital public service they perform, should not be enacted.

III. IMPACT ON MSLF AND ITS EMPLOYEES

The financial impact of Social Security taxes on non-profit organizations will be enormous. The projected consequences of these new taxes on MSLF is illustrative of these burdens.

MSLF employs approximately 28 full-time and 10 part-time staff members. The Foundation has always recognized the value of health care and retirment benefits, and provides comprehensive coverage for full-time employees. Such employees are covered at no cost by excellent health, dental, disability, and retirement plans, and may further provide for their own retirement through tax shelter annuities. Pension coverage vests 20 percent each year and is fully vested after five years of employment, guaranteeing retirement payments equalling 66¾ percent per year of the average of the employee's five highest-earning years. This private pension plan provides superb benefits at less than one-fourth the cost of Social Security.

MSLF's Board of Directors carefully prepares its annual budget to guarantee that contributions are channelled to fulfill the goals and objectives of the Foundation. As a result, at least 70 percent of the Foundation's expenditures are applied to the legal activities for which MSLF was founded. The remaining funds are used for administrative, communications, and development purposes. Based on its 1982-83 budget, MSLF can project that, if subjected to Social Security taxes, it would have to devote fully four percent of its budget to employer's share of Social Security taxes in 1984.[1]

Social Security taxes would also have a drastic impact on MSLF employees. Although the Commission recommends that employees be taxed at the rate of 7 percent of gross salary as of January 1, 1984, the effect on actual take-home pay will be significantly greater. Social Security taxes will reduce MSLF employees' paycheck by 8.4 to 9.2 percent. The tax burden for a typical employee, which presently reduces gross salary by 19 percent, will now claim over one-fourth of the gross salary.

Non-profit organizations and their employees will bear a disproportionate burden of the Commission's proposal. While governmental agencies newly subjected to Social Security taxes will be compelled to make contributions only for new employees, non-profit organizations will have to pay for all present and future employees. Further, existing non-profit employees are the only American employees to suffer such a dramatic decrease in net salaries. As described here, the financial impact on Mountain States Legal Foundation will be enormous, and could impair the ability of the Foundation to carry out its public interest activities. MSLF submits that similar disproportionate burdens will be borne by the other non-profit organizations and their 675,000 employees presently exempted from Social Security taxes, jeopardizing the important and beneficial roles they perform.

IV. PUBLIC POLICY CONSIDERATIONS

Imposition of Social Security taxes on presently exempt non-profit organizations will have serious adverse public policy consequences. Clearly, the overall costs and burdens of the change will outweigh the questionable benefits for the long-range viability of Social Security.

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[1] This figure does not take into account extra administrative costs and potential expenses of insulating employees from the impact of Social Security taxes on their takehome pay.

A. Burden to non-profit organizations

In difficult economic times, organizations dependent upon voluntary contributions face greater than usual difficulties in fulfilling public interest objectives. As illustrated in the preceding section, the potential financial impact of this proposal would be tremendous, and possibly fatal to some nonprofit organizations. Additionally, due to the impact of Social Security taxes on net salaries, it will be more difficult for such organizations to attract and retain highly qualified employees. It is impossible to quantify either the costs to society of cutbacks in or elimination of private sector non-profit services, or to predict the potential costs of replacing such services through government. But such an outcome will necessarily result from the imposition of massive new tax burdens.

B. Discouragement of private sector pension alternatives

As noted, excellent private alternatives to Social Security are available at substantially lower costs. Government should encourage pursuit of such alternatives. In addition to reducing the burdens of employers, employees, and the Social Security system, private pension plans often make funds available for investment. Contraction of such alternatives could thus adversely impact the economy while increasing the drain on Social Security benefits.

C. Long-range burdens on social security

As the Wall Street Journal notes, the Commission's package "gets Social Security over short-term trouble [but] it doesn't ensure long-term solvency." [2] Inclusion of non-profit organizations in the system would produce an immediate infusion of funds. But it would also greatly expand the number of future claimants, adding to an already over-burdened pension system. MSLF submits that the proper response is to confine, rather than expand, this significant problem.

V. CONCLUSION

The financial difficulties facing Social Security are an important national concern. In fashioning solutions, however, it is vital that the long-range benefits outweigh costs. Mountain States Legal Foundation, which provides important and unique public interest services, strenuously objects to the disproportionate burden the Commission proposes that it and other non-profit organizations bear. MSLF respectfully requests that this honorable Committee consider the consequences of this proposal, and to reject as ill-advised the proposal to eliminate the non-profit exemption to Social Security taxes.

HERNDON, VA., *February* 15, 1983.

MR. JOHN SALMON,
Chief Counsel, Committee on Ways and Means

1. Enclosed are my views concerning the administration's proposal to place newly hired government employees under social security instead of under the existing Civil Service Retirement System. I am emphatically opposed to the above proposal and request that my opposition be entered as part of the official committee record.

2. My rationale for this opposition is: It will reduce the benefits of working for the federal government, thereby increasing the difficulty of attracting, hiring and retaining the most qualified employees. This will have the long term effect of reducing the effective management of huge government programs, budgets and personnel.

3. While I am totally opposed to the proposal, I recognize that the proposal could be implemented. If this happens, I strongly recommend that a new and separate fund be established for deposit and withdrawal of funds for government employees. Military personnel have a similar system now.

ROGER M. MUDRON.

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[2] Merry, "Social Security's Plan's Chances," Wall St. J., Feb. 4, 1983 at 23.

National Association of ASCS County Office Employees
Liberty, Mo., February 9, 1983.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

Dear Mr. Chairman: I appreciate the opportunity to present the views of the National Association of ASCS County Office Employees (NASCOE) on the financing problems of the social security system and especially on the recommendation of the National Commission on Social Security Reform to bring all newly hired Federal and postal workers under social security.

NASCOE is an association whose purpose is to promote the welfare of Association members. Its membership consists of those employees hired to work in the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service county offices located in all of the States of this Nation. There are about 10,000 such employees whose jobs are to provide services to the farmers of our nation participating in the programs administered by ASCS. Thus, with a membership of over 90 percent of all County Office employees, NASCOE is truly representative of the opinions, views and concerns of these employees.

County Office employees are not General Schedule Federal employees. Rather, their designation is "CO" or County Office. The funds for their compensation is a part of the Department of Agriculture's appropriated budget and the allocation of that budget to ASCS. Their entitlement to Federal benefits such as health and life insurance, retirement, etc. is derived from specific legislative enactments and thus, though they are not civil servants in the strict sense of the phrase, they share the same concerns regarding their total employment situtation as all other Federal employees.

NASCOE opposes the recommendation of the National Commission on Social Security Reform to bring all newly hired Federal and postal workers under Social Security for many reasons but primarily because of the deep concern NASCOE has over the future well-being of both the social security program and the Civil Service Retirement System.

No one denies the serious financial difficulties now facing the social security system. Funds are needed now to pay the benefits to which millions are entitled. But, we must ask the fundamental question and insist that it be answered. That is, will a mere infusion of cash solve the problem in the long-run? We concur that bringing newly hired Federal employees under social security will provide needed funds now and in the short-run but when those new employees begin to draw benefits won't social security face the same funding problems it now faces? Then, what new group will Congress seek to add at that time—what group could it find to provide another temporary cash infusion? The real problem must not be allowed to go unanaswered and unsolved any longer.

We will not endeavor at this time to present a host of statistics on the financial folly of the proposal to bring new Federal workers under Social Security. We are familiar with the many accurate studies now available which clearly support our position on this issue. Rather, we wish to point to some historical factors which are highly relevant to the issue under consideration.

When President Roosevelt pushed the enactment of social security legislation, he viewed the proposal as a compromise. It was better than other alternatives being seriously considered at that time. He was astute in recognizing that the proposal could not work financially for years to come and he envisioned that the next Congress would radically alter the program. As we know, this did not occur. Heady with the realization of the monies being contributed to the social security funds, Congress didn't look down the road to the benefits that would have to eventually be paid out. It didn't heed Roosevelt's warnings. Rather, it merely said that since initially more cash was coming in than going out, more benefits should be available and it passed legislation providing for such additional benefits. This was a very short-sighted approach.

As mentioned before, County Employees are unlike other Federal employees. The Soil Conservation and Domestic Allotment Act of 1936 directed the Secretary of Agriculture to utilize the services of local, county and State farmer-elected committees for the administration of farm programs. From that time forward, the ASCS offices in the various counties were staffed by persons whose jobs were to "serve the farmers of this Country". These persons were and are paid from Federal funds yet their employment situation is truly unique.

NASCOE's members are not under Civil Service. They cannot transfer to another Federal agency and retain accrued leave and other benefits. They are not protected by reduction-in-force regulations, grievance procedures and other such measures.

County Employees do not receive automatic step increases or cost of living increases as do other employees who are under Civil Service. But, these employees are not complaining. They are proud of their jobs and their service to this Country through its Government and they recognize the validity of the employment situation they are under. For instance, staffing in county offices is determined on the basis of an objective work measurement system. If the workload in any area decreases then there is a reduction in staffing. Not so in other Government agencies. The converse should also be true but in the recent past when work load has dictated an increase in staffing such has not occurred obstensibly as a recognition of Federal budget constraints. County Employees, nevertheless, have performed their jobs in an exceptional manner.

Thus, it is easy to see that County Employees are not what some in the public sector refer to as "fat bureaucrats". In fact, the opposite is true. County employees as are other Federal employees are lagging in pay comparability with the private sector. Their job security compared to others is sadly lacking and now the integrity and viability of the two largest tangible benefits to which they are entitled via specific legislative action, namely, participation in the Federal Employees Health Benefits Program and in the Civil Service Retirement System, is being seriously threatened.

Perhaps one should examine why County Employees sought participation in the Civil Service Retirement System in the first palce.

County Employees, like all employees who truly believe in the work they do and wish to serve their Country through Government service, were faced with the realities of the world which is that a provision must be made for one's personal security and welfare after retirement. Most employees cannot save sufficient money during their working years and the income supplement, Social Security, does not and was not meant to make up the difference. An examination of the purposes for which Social Security was established shows that it was to be a supplemental retirement program for those whose employers failed to provide them with an adequate retirement program. Every effort was to be made to encourage employers to provide retirement programs for their employees which would negate the necessity of Social Security. Recognizing these factors, County employees turned to their employer, the Federal Government, and said, quite simply, we would like the opportunity to participate in a financially sound and meaningful retirement program. The Federal Government, as an employer, was responsive and in 1960 County Employees became eligible to participate in the Civil Serivce Retirement System.

CSRS is financially sound. It works well. With such a retirement program, employees do not need to also be covered by Social Security. If Federal employees were to retire having only Social Security benefits, they could not afford to spend their careers with the Federal Government and more importantly, in the long-run, bringing such employees under Social Security would pose a financial burden on the Social Security trust funds and to the American public.

Thus, we must ask, is the Federal Government unlike any other employer in that there is no longer a public need to offer a viable retirement program for employees? Of course not. It is obligatory upon every employer to provide a retirement program which will alleviate the old age public welfare problems facing this nation. The National Commission's recommendation is to merely bring newly hired Federal workers under Social Security. There is no pending proposal for a supplemental retirement program for those new employees.

Should the present CSRS program be scraped in favor of Social Security? Of course not. To only provide employees with Social Security is contrary to public policy and it would be fiscal folly. Every single Government dollar paid in CSRS benefits is subject to tax which helps the overall general revenue picture tremendously. Social Security benefits are not subject to income tax and furthermore, it would also fall upon the Government to fund the present employees' retirement benefits when the CSRS balance dries up which is estimated to be in less than 20 years if new employees do not make contributions.

Should the Government cease its share of funding to the CSRS? Of course not. Every employer funds the retirement programs of its employees and when one considers the tax revenues generated on CSRS benefits versus the lost revenues on nontaxable Social Security benefits and then accounts for the employer's mandatory Social Security contributions, the cash flow differential certainly doesn't merit the changes proposed.

There are no valid arguments for placing newly hired Federal and postal workers under Social Security. In fact, the only argument for such a proposal is that it will provide Social Security with immediate revenues now—for a short while.

The proposal does not address the real crux of the problem facing Social Security, namely, that more in benefits are currently and will be in the future paid out than is and will be in the future collected in Social Security contributions. This issue must be faced squarely and addressed clearly by the Congress now.

The answer does not lie in bringing new Federal and postal workers under Social Security and for this central reason NASCOE opposes this particular proposal of the National Commission on Social Security Reform.

Thank you, Mr. Chairman, for the opportunity to comment on this important issue. Please see that our letter is included in the hearing record.

Very truly yours,

LINDSAY CROSSETT, *President.*

STATEMENT OF THE NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

The National Association of Government Employees (NAGE) an affiliate of the Service Employees International Union (AFL-CIO) represents over 100,000 federal employees nationwide, is pleased to have this opportunity to present our views on the Report of the National Commission on Social Security Reform to the House Committee on Ways and Means, Subcommittee on Social Security.

Our members are interested in the recommendations of the National Commission on Social Security Reform. Of vital concern to our organization is the recommendation that coverage under the OASDI program should be extended on a mandatory basis as of January 1, 1984 to all newly hired civilian employees of the federal government.

The N.A.G.E. opposes the recommendation that all new federal employees be included under Social Security. This recommendation would, we fear, jeopardize the retirement system of millions of federal employees and retirees, needlessly waste millions of taxpayer dollars, and wreck havoc with the morale, and productivity of the civil service workforce.

The debate over including federal employees under social security has been raging for years. The attraction to proponents of this proposal has been the short term infusion of cash into the Social Security System. Four previous Congresses have rejected this approach as shortsighted and cost ineffective. The N.A.G.E. urges this Committee to consider the overall effect to the Social Security System, the Treasury and the Civil Service Retirement System of this proposal and not be pressured into any hasty and costly action which would have a deleterious effect.

The National Commission estimated that a savings to Social Security of some $20 million could be realized in the short run. The Commission also asserts that a .3 percent savings of taxable payroll over 75 years could be realized. This latter assertion has been disputed by several sources. A previous Commissioner of the Social Security Administration testifying before a House Post Office and Civil Service Committee indicated that inclusion of federal employees under Social Security would only add to the long range problems of Social Security. A recent Wall Street Journal article (December 2, 1982) called the inclusion of federal employees under Social Security a "Trojan Horse" which would only add to the amount of Social Security liability over the long run as millions of federal employees become eligible for benefits. N.A.G.E. shares the view that extending Social Security coverage to federal employees would only add to the long range deficit of Social Security.

Extending Social Security coverage to new federal employees would have severely detrimental effects to the Civil Service Pension Fund and to the Treasury. The Civil Service Retirement and Disability Fund is the disbursing mechanism out of which benefits are paid. The Fund is maintained as an accumulation of assets held in trust for Civil Service Retirement System members by the U.S. Treasury. These assets are for the most part placed in the form of specially created financial instruments in which revenues to the Fund are invested.

At present the Fund has an unfunded liability of some $185 billion. In part this unfunded liability can be accounted for by the government's failure to pay its full share into the fund in earlier years. In part the unfunded liability has been caused by a liberalization of benefits which has exceeded contributions. During recent years the unfunded liability has been met by increasingly large contributions from the federal treasury.

Despite the unfunded liability the Retirement Fund has a balance of $96 billion as of September 30, 1982. An independent study conducted estimates that if funding were continued as currently mandated by law, there would be adequate resources to pay retirement benefits into perpetuity.

If however new hired federal employees were removed from the system, it would result in the Funds balance reaching zero in about 20 years. In about 40 years there would be virtually no workers left to pay off the Funds $185 billion liability. With a modest rate of inflation the unfunded liability would reach over $500 billion. This heavy financial burden could only be met out of appropriations from general revenues.

There would be a drain on the Treasury caused by the inclusion of federal employees under Social Security. Federal employees unlike Social Security recipients pay taxes on the benefits. Inclusion of federal employees would result in a loss of tax revenues as non-taxable Social Security benefits replace taxable pension benefits.

In short the N.A.G.E. believes that including new hired federal employees makes bad economic sense. In essence this proposal is penny wise and Sound foolish, substituting a short term infusion of capital into Social Security for increased long term deficits in Social Security plus loses of revenues to the Treasury, and risking bankruptcy in the Civil Service Retirement System.

Historically the Civil Service Retirement System has been an important device in insuring that the federal mission is undertaken with the most skilled personnel available. The Civil Service Retirement System predated the establishment of Social Security. Originally the C.S.R.S. was established (in 1920) as an efficient and humane method to remove from active civil service tenured employees whose age or infirmity prevented the satisfactory performance of their duty. It was only later that the social goals of pension benefits were emphasized to a greater degree. The C.S.R.S. gradually developed as its objective the protection of employees. The concept of retirement as payment granted to achieve management objective was slowly supplanted by the concept of retirement as a deferred form of compensation. Retirement became a right earned through past services, workers were held to be entitled to an income sufficient to live in comfort and dignity after the completion of a full career.

The Civil Service Retirement System has always required greater employee investment and provided greater benefits than has Social Security. In the early days of the C.S.R.S. the employee contributed 2½ percent of salary to the Pension Fund while the government contributed nothing. It was only after 1952 that Congress pass a law requiring that the government's contribution to the C.S.R.S. Fund could not be less than the employee's contribution. To some degree the government's failure to contribute an equal share to C.S.R.S. has lead to the present unfunded liability.

The Civil Service Retirement System has been the most successful benefit in attracting and retaining quality workers. The pension benefits under C.S.R.S. have been designed to provide a comfortable and dignified retirement for those who invest the longest years of work in the government. The C.S.R.S. thus provides an incentive to the most dedicated workers to remain with the government for their careers. These individuals have been willing to eschew more generous private sector pay levels for a secure and adequate pension. This promise of a secure retirement has been the basis upon which many federal employees have launched their careers with the federal government. In good conscience the government cannot jeopardize the pension benefits of current workers. In addition by jeopardizing the C.S.R.S. the government runs the risk of losing it's ability to attract and retain the quality workers needed to accomplish government mission. It would be a tragic mistake if government were unable to attract the "best and brightest" at a time when rapid advances in technology, and the increasingly complex mission of government place greater demands on skilled and motivated workers than perhaps ever before.

The National Commission has indicated that an independent supplemented plan should be developed for new federal hires by January 1, 1984. This is an unrealistic expectation. The task of developing an independent supplemental retirement plan would be an extremely complex one. The Civil Service Retirement System is not one retirement plan but actually dozens of separate plans involving workers of differing legal status. There are literally dozens of Committees in addition to the House Post Office and Civil Service and Senate Government Affairs Committee with jurisdiction over changes in the Civil Service Retirement Systems. At this time there is no comprehensive legislation introduced to address this issue. It would, we suggest, be a very difficult task to coordinate actions between committees, and research and develop legislation to address the complex questions which arise in developing a pension system of this magnitude.

Mr. Chairman, the evidence has shown that the recommendation to include new federal employees under Social Security is one which is cost ineffective. This proposal would jeoparidize the retirement benefits of millions of federal employees and retirees, and would impact on the governments ability to perform its mission. We urge this committee to reject this proposal.

STATEMENT OF DONALD N. LEDBETTER, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to submit this statement on behalf of the National Association of Postal Supervisors, an organization whose members are middle-level managers in the United States Postal Service.

We strongly support the efforts of this Subcommittee, of the Ways and Means Committee, and of the Congress to find solutions to the short-range and long-range financing problems of the Social Security System. The importance of this program, particularly to older Americans, can hardly be overemphasized. At the same time, we are unalterably opposed to mandatory coverage of new Federal and Postal employees as a means of seeking a partial solution to the financing problems. Our members believe that mandatory coverage would not be in the best interest of the Social Security System, of the Federal and Postal employees, or of the taxpayers.

Bringing in new Federal and Postal employees is estimated to produce additional Social Security revenues of $8 billions to $12 billions for the short-range period through 1989. This added revenue is so small in relation to the total of $150 billions to $200 billions needed through 1989 that it can hardly be considered essential to solving the problem. The total amount of added revenue is considerably less than the difference between the high and low estimates of the revenue required.

As for the long-range period of 75 years, we invite the attention of the Subcommittee to a table printed on page 83 of a Committee Print entitled "Civil Service Pension Reform Act", prepared by the Subcommittee on Civil Service, Post Office, and General Services, Committee on Governmental Affairs, United States Senate, 97th Congress, 2d Session. This table, which attributes its benefit estimates to the Social Security Administration, shows that for the year 2050 (which is before the end of the 75-year long-range period) the increased Social Security benefits paid because of coverage of Federal and Postal employees will exceed the Social Security taxes paid by and for them by $7.2 billions, and that the net budget cost for that year will be $201.1 billions. It is apparent from the table that the financial picture is deteriorating rapidly at that time.

The National Commission reports that even if all the proposals of the compromise agreement are enacted, Social Security will still lack 0.58 percent of covered payroll of being in long-range actuarial balance. This is significant in light of the statement on page 2-8 of the Commission report that on the average revenues for newly-covered workers will exceed the additional benefits that result from their employment, "assuming that the program is in long-range actuarial balance."

The problem of so-called "windfalls" is usually given as the primary justification for recommendations to mandate Social Security coverage of Federal and Postal employees. The recent elimination of the minimum benefit, plus the fact that each year more quarters of coverage are required to qualify for benefits, would seem to make this justification less and less persuasive. To the extent it is still a problem, the situation would be corrected by enactment of the National Commission's recommendation that the method of computing benefits be revised to eliminate the "windfalls".

Most of the estimated savings to Social Security from coverage of new employees would come from removing the opportunity for "windfalls". Thus if "windfalls" were eliminated by revision of the computation formula, little reason for extending coverage would remain except adherence to the ideological goal of universal coverage.

For more than sixty years Government employees have relied on the Civil Service Retirement System to provide them with adequate retirement income after completion of their careers. In 1969 the Congress took steps to strengthen that reliance by enacting permanent financing provisions. These provisions require that Government, in addition to matching employee retirement deductions, pay the equivalent of interest on the unfunded liability of the System, and also amortize the retirement liability created by increases in pay scales.

The Civil Service Retirement System never intended that employees and the employer share its costs equally. The law has always required employees to pay a fixed percentage of salary, and the employer has assumed and still assumes the obligation to pay whatever additional amount is necessary to meet the benefit payments promised by the system. The unfunded liability, which has risen sharply in recent years because of runaway inflation, exists because Government did not fund retirement liabilities as they were created, beginning in 1920 and continuing to the present. A common misconception is that the unfunded liability exists because the employer did not match employee contributions until 1957.

Unless the laws are changed, or unless at some point the laws are not observed, the 1969 financing provisions assure that the Civil Service Retirement Fund will have all the revenues it needs to pay all benefits as they become due for at least the next one hundred years. Mandating Social Security coverage of new workers could destroy this financing pattern. If legislation cut off new entrants, and if present financing were continued, the Fund balance, which is now $96 billion, would be reduced to zero in about twenty years. At that point the Civil Service Retirement System would be in the same fix that Social Security is in today—broke and seeking legislation to provide the funds needed to pay all benefits on time.

Present law requires that the employer pay interest only on the unfunded liability. It is not necessary to pay off this liability as long as there are new entrants to the system. However, if the cash flow is interrupted by cutting off the income from employee and employer contributions for new entrants, the remaining income will not be enough to pay all the benefits while the system is being phased out. Then it will be necessary to pay off the unfunded liability, which was estimated at $185 billion as of September 30, 1981 without any provisions for future inflation, and as much as $550 billion if future inflation averages 5.5 percent a year.

It has been said that paying off the unfunded liability in the process of phasing out the system would not cost the Government any money. This can be true only in the sense that the unfunded liability represents an obligation that has already been incurred. But this obligation is at present only a moral compact—a commitment by the Government to pay deferred compensation in the form of retirement benefits to its employees. If the Fund balance reaches zero, this moral obligation will have to be converted to dollars in order to pay all benefits on time. This could be accomplished by taxing to produce the needed revenues, or it could be done by borrowing the necessary funds and increasing the public debt by the amount borrowed.

Our members fear that if a point is reached that the present financing provisions do not produce the dollars needed to pay all benefits, it will be very difficult indeed to persuade the Congress and the Administration then in office to provide the additional funds. The alternative of reducing or eliminating benefits will be much more appealing.

The National Commission expressed a belief that an independent retirement plan, which would be part of the Civil Service Retirement System, should be developed to supplement Social Security for new workers. If it were done this way, the interruption to the cash flow of Civil Service Retirement would not be quite as severe as if new entrants were cut off. However, the only supplemental plan that has been developed to the point of legislation is the bill S. 2905, introduced by Senator Stevens of Alaska in the 97th Congress. This bill would definitely cut off new entrants, and none of the revenues of the supplemental plan would go into the Fund. The unfunded liability would be amortized over a forty-year period, as an estimated cost of more than $500 billion.

Inasmuch as Social Security provides only a basic retirement income, it is probable that some kind of supplemental system would be adopted for new employees. However, it appears certain that the process of devising and approving such a system would be viewed as an opportunity for further budget cuts at the expense of Government employees, a group of citizens that has already absorbed more than a fair share of the budgetary burden. We believe it is impossible to adopt a supplemental system in the present political and budgetary climate that would be fair and equitable to affected employees and their families.

A supplementary system designed to achieve budget cuts would certainly offer benefit levels below those of the present system. The grandfathered group in the present system, which would be getting smaller and smaller, would soon become a prime target vulnerable to budget cutting in future years.

Before any decision on mandatory coverage is made, we think consideration should be given to factors other than how the proposal would affect Social Security's financing problems. Among these factors, some of which would require extensive staff work, are the following:

1. Extending coverage would not create any new revenues; existing revenues would merely be diverted from Civil Service Retirement to Social Security.

2. Most of the tax revenues on Civil Service Retirement annuities, which now total more than $2 billions a year, would be lost as tax-free or nearly tax-free benefits became payable from the Social Security System.

3. The true cost of a retirement system is measured by the benefits paid out. It is never cheaper to pay the same level of benefits from two systems instead of one.

4. If the combined benefits from Social Security and a supplemental system are guaranteed to be not less than present Civil Service Retirement benefits, the total cost would be greater because of the loading of the Social Security benefit formula for short service and for low salaries.

5. If the benefits of Social Security combined with a supplemental system could somehow be worked out to be exactly equal to present benefits, then, except for administrative costs which would be much higher, the costs would be the same as at present. It would appear to be a useless exercise to drag over 2½ million unwilling workers into Social Security to achieve this result.

6. The only way to reduce total retirement costs is to reduce the overall level of benefits. Social Security's finacing problems should not be used as an excuse to reduce the future retirement incomes of either present or future employees or annuitants.

CONCLUSION

The National Association of Postal Supervisors recommends that this Subcommittee, the Committee on Ways and Means, and the Congress not approve the proposal to mandate Social Security coverage for new Federal and Postal employees.

STATEMENT OF JOSEPH M. GONDOLA, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. Chairman, and members of the committee, I am Joseph M. Gondola, President of the National Association of Postmasters of the United States and Postmaster of Clifton, New Jersey. I have the privilege of speaking for approximately 36,000 Postmasters and retirees. On behalf of our membership I thank you for this opportunity to express the Association's views concerning the proposed extension of OASDI Coverage to Newly Hired Federal and Postal Workers.

The National Association of Postmasters of the United States is opposed to the merger of the Civil Service Retirement Program and Social Security. We believe that forcing non-covered federal and postal employees to come under Social Security would be contrary to the public interest.

Our Organization fully recognizes that Social Security is a social program essential to our society and feels that it should be continued. Social Security was conceived and implemented as a program to provide an income floor which the worker and his employer would supplement through whatever resources they put aside. Although originally conceived as a basic retirement program, fortunately, or unfortunately, it came to be recognized as just that. One which thousands of our citizens depend upon as their sole source of retirement income and as such it is imperative that it be continued.

Civil Service Retirement System on the other hand was originally designed to provide an adequate income in retirement for the career employee who was required to pay a percentage of his income for this protection. In other words, it is a basic retirement program and not a supplemental one.

Federal employees were excluded from the Social Security program at the outset because they were already covered by a good retirement plan. To place them under Social Security now would necessitate reducing future retirement benefit levels without any corresponding gain from Social Security.

It is acknowledged that in order for Social Security to survive some changes or reforms will have to be made. Bringing another 6.5 million federal, state and local government employees under its coverage would only compound the problems that exist now and would ultimately cost the taxpayers more in the future. What is needed is a reasoned reform of the Social Security program, not more members. It is true that coverage of federal employees would mean the infusion of millions of dollars into the Social Security trust funds, but such thinking reflects false economies because federal workers making Social Security contributions would of necessity one day become Social Security recipients. Furthermore, the introduction of more monies into the Social Security trust funds would be somewhat out-weighed by short term administrative costs and long term benefit payments.

In addition, the Federal Goverment would experience a significant tax revenue loss if universal coverage were to become a reality. In 1977 Civil Service retirees paid taxes on the $9 billion in retirement benefits they received. Conversely, Social Security disbursed some $85 billion in benefits, all of it non-taxable. This loss in revenue would have to be made up elsewhere. The Joint Economic Committee estimates that more than $2,000,000,000 is collected each year in federal income taxes from CSRS benefits. These revenues would be lost if retired federal employees collect Social Security instead of Civil Service Retirement Benefits. For those recipients with income of $20,000 or more the average CSRS annuity is less than $13,000, and that is fully taxed.

At the present time federal and postal workers pay 7 percent of their salaries into the Civil Service Retirement System. The Civil Service Retirement System is financially sound and will remain so for many years to come. But the retirement system depends on receipts from current employees to pay benefits to retired workers. Placing newly hired workers under Social Security instead of Civil Service Retirement would eventually bankrupt the Civil Service Retirement System. Once bankrupt the cost to the taxpayers to meet Civil Serivce benefits would be very great. An indpendent researcher estimates conservatively a minimum of $185,000,000,000 and using a 40 year period to phase out CSRS when adding a 5.5 percent inflation rate, that figure could be a staggering $550,000,000,000. The fact is that while the Civil Service Retirement System is financially sound now, universal Social Security would lead to its ultimate bankruptcy.

The proposed merger would result in lowering the quality of management in the Federal Goverment and would have an adverse impact on the Federal Government's ability to recruit and retain able workers. We believe that a good retirement system for federal employees is and has been the premier inducement for individuals to enter and remain in federal employment. If that benefit is removed or diminished by a merger it would bring undue harm to the recruitment of able and quality employees. It has long been recognized that the stable and cost-effective Civil Service Retirement System is one of the major reasons for job longevity and upper management retention in the Federal Government. In addition to this it would also lead to the erosion of a vital personnel management tool. The Civil Service Retirement Act has helped to create vacancies to reward deserving employees, it has alleviated the painful human effects of reduction in force as well as to encourage workers to spend long and productive careers in government. In the long run, the adverse effects on the quality of our government will be maintained since the inability to retain high caliber personnel will lead to mediocrity.

It is for these reasons that we oppose the proposed "grandfathering" of present civil service employees and annuitants under the coverage of existing retirement law and placing of newly appointed workers under Social Security. We also feel that as the number of persons covered under existing law would decrease, Congress would give less and less attention to needed changes in a retirement law covering a dwindling population.

U.S. Representative Marjorie S. Holt in expressing her concern over bringing all new federal employees and those with less than five years of service into the Social Security Program recently stated: "But if these federal workers would not be contributing to the Civil Service Retirement System, then how would we pay for the future retirement benefits of those legions of federal employees who would continue to be entitled to Civil Service retirement benefits? Perhaps a reduced Civil Service retirement plan to supplement Social Security will be made available for the new and newer federal workers, but there is no doubt that their contributions to the Civil Service Retirement System would be substantially less. It is clear that the commission's proposal would steadily diminish the income of the Civil Service Retirement System. If future Civil Service retirement benefits were not cut proportionately, then those benefits would need to be financed with a growing subsidy from general funds. Most responsibile Members of Congress would not want to directly finance Social Security benefits with general funds, which would inevitably make the program indistinguishable from a welfare program. Social Security should be maintained as a self-supporting program of earned benefits financed by a special tax on employers and their employees. However, the commission's proposal to bring federal workers into Social Security is an indirect method of financing the program with general funds. It bleeds the Civil Service Retirement System and creates a new liability against general funds to support civil service retirement."

President Wilbur S. Wood, of the National Rural Letter Carriers Association, in his remarks shared our concern when he stated: "The Presidential Commission proposal to extend OASDI coverage to newly-hired federal workers was offered with the expectation that a supplemental employer-sponsored pension would be established for those workers. However, nowhere in the Commission's report, nor any place in the Committee's files, exists an adequate proposal for developing that supplementary system. Again, on 'good faith', Congress asks the federal work force to accept that such a system will be created. But how, and when, and by what fiduciary standards? Will it be a defined benefit or defined contribution plan? Will it employ add-on, variable, or fixed-rate approach in calculating aggregate benefits? Certainly the parameters of such elementary questions should be answered before federal workers are asked to accept the creation of a fundamental rift in their retirement program."

Universal coverage of all employees sounds impressive. Why not have all employees covered by Social Security. Surely if all are covered it would cure the faltering Social Security program. That is an illusion. Actually, the goal of universal coverage is not practical. Constitutional impediments surrounding separation of church and state would preclude the extension of coverage to state and local government employees or to the employes of many religious based non-profit groups.

In conclusion, the members of our organization oppose the merging of federal and postal employees into the Social Security system. We have a financially sound retirement system. We are satisfied with it. We do not feel that the inclusion of federal and postal workers as part of the Social Security system will correct its shortcomings. Why destroy a good program in order to save a program which aside from being troubled, is not a true retirement plan?

STATEMENT OF THE NATIONAL EMPLOYEE BENEFITS INSTITUTE

The National Employee Benefits Institute ("NEBI") is an organization composed of Fortune 1,000 companies sponsoring numerous health benefit plans as well as pension plans containing more than $28 billion in assets. After reviewing in detail the report prepared by the National Commission on Social Security Reform, NEBI wishes to make the following comments:

1. *NEBI Supports Recommendations of the Commission.*—After reviewing the data in the National Commission's Report, NEBI members agree that there is a financing problem for the OASDI programs. Also, almost all NEBI members believe that it is necessary for Congress to make few changes to the package of proposals submitted by the Commission, because too many modifications to the proposed program could cause the entire set of revisions to unravel. Accordingly, with the exception of Recommendation No. 17, almost all members of NEBI support the positions taken by the National Commission, including unanimous positions, consensus positions and majority positions. However, almost one-third of NEBI's members express no position with respect to imposition of OASDI-HI taxes on any salary deferred under a 401(k) plan and almost one-third of NEBI's members oppose Recommendation No. 17.

2. *Additional Areas Worthy of Study.*—NEBI proposes the following as additional areas of study by Congress or another Commission:

(a) *Cost of Living Adjustments ("COLA").*—Presently, increases in Social Security benefits are pegged to the Consumer Price Index ("CPI"). One of the Commission's proposals was to delay the June COLA increase until December. The Commission also proposes using the lesser of the increase in the CPI or the Social Security Administration average wage index when the OASDI fund balance dips below 20 percent of the disbursements during any year. The proposal requires supplemental makeup payments in any subsequent year in which the OASDI fund balance is 32 percent or more of disbursements.

NEBI does not oppose Recommendations 8 and 15 described above. However, NEBI believes that Congress should study whether equity, the savings to the OASDI fund and efficiency might be increased through the development of a single index that more accurately reflects the average expenditures made by retirees. NEBI believes that COLAs should not increase purchasing power of retirees relative to other consumers. The CPI, which heavily weights costs such as home mortgages, can distort the actual increases in cost of living experienced by older Americans. The result may be increases in real purchasing power from Social Security COLA payments rather than neutralization of price increases experienced by retirees. Development of an index that more accurately reflects the expenses of retirees is an area that deserves further study.

(b) *Raising the Retirement Age.*—The Commission did not reach agreement on increasing the eligibility age for OASI payments. However, members Archer, Beck, Conable, Dole, Fuller, Greenspan, Heinz and Trowbridge recommended a phased-in increase of one year (from age 65 to age 66) to be completed by the year 2015. NEBI believes that this proposal deserves further study. As the rate of population growth continues to decline and life expectancies continue to rise, many workers will remain employed for longer periods of time. An increase in the Social Security retirement age to reflect these trends might substantially reduce current funding requirements and help avoid tax increases.

STATEMENT OF THE NATIONAL FEDERATION OF LICENSED PRACTICAL NURSES

The National Federation of Licensed Practical Nurses appreciates the opportunity to present its views regarding the current difficulties facing the Social Security system.

The National Federation of Licensed Practical Nurses is a professional association representing the 750,000 licensed practical nurses in the United States. The concept of a strong Social Security system has become a fundamental part of our nations social obligations. It provides protection for the aged, as well as the disabled and their families. Also, because the Social Security system impacts so greatly on women and our organization and profession is comprised primarily of women, we have an additional interest in the survival and role of the Social Security system.

During difficult economic times where high unemployment and inflation strain the economy and the current system, the National Federation of Licensed Practical Nurses believes it is especially important to revitalize the Social Security system. Unfortunately, we have waited too long to provide the many solutions necessary to keep the Social Security system solvent. We are on the brink of disaster by breaking our social commitment to the millions of present and future Social Security beneficiaries. However, this Congress has the responsibility to act immediately to resolve the financial problems which face this important system.

There are no easy and painless solutions to make the Social Security system solvent again. The Congress faces difficult choices but these choices are necessary in order to protect the present recipients, as well as future generations.

While parts of the system must be changed, the essential philosophy that the Social Security system is a social insurance program protecting all members of society and that all members of society share in the responsibility of making the system work must remain.

As a professional organization interested in the old and disabled, the National Federation of Licensed Practical Nurses is anxious to see the present benefits, to this part of the population, not only continue but keep up with the needs of the recipients and the needs of a society willing to accept responsibility for those who cannot care for themselves. Also, our organization is comprised of individuals who themselves are dependent on the Social Security system and will, when they reach retirement, depend on the benefits promised them because of their contributions to the system.

We believe that the National Commission on Social Security Reform has suggested several options which we should look to most carefully. Licensed practical nurses are most concerned about two issues raised by the National Commission on Social Security Reform. They are: (1) The extension of Social Security coverage to non-profit organizations, and (2) The inclusion of Federal Civil Service employees in the Social Security system.

Current law does not require non-profit organizations to participate in the Social Security system. Therefore, licensed practical nurses, who work in non-profit hospitals, may not now participate in the Social Security system. We strongly urge Congress to support this recommendation and to include all non-profit organizations in the Social Security system.

We believe it is important to extend coverage of the Social Security system to all individuals who work in non-profit organizations because so many individuals as well as our nurses work in non-profit institutions, such as hospitals and nursing homes. Licensed practical nurses are particularly discriminated against by not having a viable retirement plan by not being able to participate in the program. We notice with alarm, the rising trend of numerous hospitals filing notice with the IRS of their intention to withdraw from the Social Security system. The desire to save money in 1982 has caused 300 hospitals to give notice to the IRS of their intent to withdraw from the system.

The nurses and other workers in these institutions are the losers. It is unrealistic to think that non-profit institutions would establish an alternative retirement program in lieu of the Social Security system.

The National Federation of Licensed Practical Nurses believes that all hospital employees should be covered by a mandatory Social Security program. We believe so, for the following reasons:

1. Hospital workers are the lowest paid in the country.
2. Hospital workers are highly mobile and the portability of the Social Security coverage assures them minimum benefits.

Hospital workers are among the lowest paid in the health care industry and therefore they are in the greatest need of the protection offered by the Social Security program. Also, because they earn low wages, they do not have the ability to establish their own retirement programs.

Secondly, because of their high job mobility, licensed practical nurses who move from hosptial to hospital, will be guaranteed that they will have a sufficient level of retirement income when they retire. While there has been legislative regarding the portability of pensions this has not been helpful to nurses.

We think it is the responsibility of this Committee to urge this Congress to provide all non-profit employees coverage under the Social Security system. We believe that like health insurance, social insurance is a basic right which should be extended universally.

We do take exception, however, with the Commission's proposal to include federal civil service employees into the Social Security system. The federal government in our opinion has established a workable system separate from Social Security and we believe that this system should remain.

In the past, federal workers have always had to sacrifice pay and benefits when the private sector was more responsive to workers needs. The rights of federal workers must be guaranteed and the efforts to improve the Social Security system should not be done at the expense of federal workers.

At this time the National Federation of Licensed Practical Nurses would like to address some additional proposals affecting women made by the National Commission on Social Security Reform. The Commission made recommendations which effects divorced women, widows and disabled women. We support the following recommendations made by the National Commission on Social Security Reform:

1. Social Security continue for surviving spouses who remarry.
2. Divorced spouses have the benefits at age 62 regardless of whether their former spouse is eligible.
3. That survivor benefits be indexed to the time the worker dies to the time the survivor is eligible to make the claim.
4. The benefit rate be raised for widows and widowers between the ages of 50 and 59.

We understand that the proposal recommended by the National Commission on Social Security Reform and agreed to by many members of Congress comprises a fragile coalition. Whether or not the Social Security system will survive is paramount to American citizens. However, once again it is those who are least able to care for themselves that suffer most if the Social Security system fails. Our organization urges the Congress to continue in its bipartisan efforts to revitalize the system. Time is of the essence.

NATIONAL LEAGUE OF CITIES,
Washington, D.C., February 9, 1983.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the National League of Cities and the 15,000 cities we represent, I would like to inform you of our opposition to the Social Security Reform Commission's recommendation to eliminate the opt out provision for state and local governments. Our current policy, reviewed annually and adopted by over 3,000 local elected officials, states: "The right of local governments to join or withdraw from the Social Security system should be preserved and not otherwise constrained."

We appreciate the financial difficulties facing the social security trust fund. However, we would point out that mandating social security coverage for local governments that voluntarily entered the system poses potential constitutional questions.

First, such an action on the part of the federal government is, in effect, the imposition of a tax by one level of government on another—an action proscribed by the Supreme Court in *Collector* v. *Day*.

Second, we believe elimination of the opt out clause is an unwarranted intrusion into the internal affairs of local government—an act proscribed by the Supreme Court in the landmark decision in *NLC* v. *Usery*. Local governments entered the system with full knowledge of their right to change their arrangements with their employees. Now, Congress is about to tell local governments they may not do so.

Finally, eliminating the opt out provision raises serious questions of equity. For those local governments that voluntarily agreed to participate in the system it now becomes mandatory. For those jurisdictions that never entered the system it remains optional. We believe it is unlikely to be constitutional to treat like entities differently under the equal protection clause of the Constitution.

Our Board of Directors is scheduled to meet on Sunday, March 6, to review our policy on this serious question. Should our policy be amended at that time, we will keep you informed.

Sincerely,

ALAN BEALS,
Executive Director.

STATEMENT OF R. FAIN HAMBRIGHT, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. Chairman and members of the subcommittee, I am R. Fain Hambright, President of the National League of Postmasters. Our organization represents more than 22,000 postmasters throughout this Nation, many of them in rural post offices such as the kind you are familiar with in your home State of Texas. In addition, we represent more than 70,000 other Federal employees, as associate members, enrolled in our Postmasters Health Benefit Plan.

Thank you, Mr. Chairman, for inviting us to express our views concerning the report of the President's Commission on Social Security and its effect upon the postmasters of this Nation. Our members not only enjoy the daily contact with the public on postal matters, but we touch the lives of social security recipients and understand the importance of a financially sound system. In most communities we represent the only contact they have with their Government which is symbolized by the American flag waving over their post office.

The National League of Postmasters shares the concern of all Americans on the financial status of the troubled social security system. Further, we desire to participate in any effort to assure the solvency of the system; however, we believe the President's Commission approached this complexed problem with only one view in mind—a quick infusion of cash into the system. On that, the report appears to have found a workable solution.

However, Mr. Chairman, we believe it to be nothing more than a "quick fix". The social security system is in trouble simply because it pays out more than it takes in. There are a number of reasons which have caused this imbalance. The most prominent causes have been inflation, skyrocketing medical costs, and unemployment. Yet, none of these problems were addressed by the President's Commission.

Mr. Chairman, we want to address one proposal by the Commission that certainly will not solve the financial difficulties of the social security system, but will, in fact, ultimately place even more serious financial burden on social security, and that is mandatorily including newly hired Federal and postal employees in the system.

This idea is not new. Universal social security coverage has repeatedly been proposed by previous commissions and study groups and the Congress has, wisely, repeatedly rejected the idea. Why? Because, simply put, it makes no sense. At no time has extension of coverage resulted in greater financial security for social security.

At this point, Mr. Chairman, we strongly recommended that this proposal be removed from the "package" presented by the Commission until a full study and complete hearing on this issue can be conducted by the Congress of the United States.

We ask this for several reasons. First, no significant financial loss to the system would result through a year or two delay in placing newly hired Federal and postal employees under social security. The Commission projected up to $20 billion of added revenues from this proposal from 1983 to 1989. Only very little of these revenues would be realized during the initial stages of such a change. After all, there is little new hiring presently taking place in Government.

Second, the Congress would be able to determine not only the attributable assets to the social security funds by such a move, but more importantly, the liability that will be incurred. In addition to the monetary question, the Congress could amply study the important human aspect involved, and also the future solvency of the civil service retirement system for those employees presently under this system and the Government's ability to hire qualified people in the future.

Mr. Chairman, we submit that this is a reasonable request as we believe the issue requires congressional prudence rather than political expediency and we strongly urge your support in this matter.

Mr. Chairman, we have as part of this testimony, a "position paper" on the subject which we have hand delivered to every congressional and Senate office, along with a "fact sheet" on this subject. We ask that these documents be included in the record as part of our statement. Further, we wish to associate ourselves with the testimony and position of fair.

On behalf of the National League of Postmasters, I thank you for providing us the opportunity to be heard on this most vital issue. I pledge our complete cooperation to you and your staff in every way possible in reaching a solution to assure a viable social security system and safeguarding the financial integrity of the civil service retirement system. Our recommendation is the only way to protect taxpayers from facing a similar crisis a few years down the road.

Attachments: I. Background Information and Position of the National League of Postmasters on Universal Coverage of Social Security; and II. Fact Sheet on Universal Social Security vs. Civil Service Retirement System.

BACKGROUND INFORMATION AND POSITION OF THE NATIONAL LEAGUE OF POSTMASTERS ON UNIVERSAL COVERAGE OF SOCIAL SECURITY

The Social Security Act, enacted in 1935, is designed to safeguard the economic independence and dignity of retirees, the disabled, surviving spouses, and orphaned children. Despite efforts by Administration spokesman to paint a bleak, and totally unrealistic picture of Social Security, a recent Gallup Poll showed that American people favor retaining the present benefit structure by a margin of 71 to 24 percent.

A Presidential Commission studying the financial solvency of Social Security, recommended including Federal and Postal employees under Social Security. The National League of Postmasters believes that any system of mandatory Social Security coverage would involve a serious breach of implied contract and involve complex legal and constitutional problems. The issue would ultimately be decided by the Supreme Court.

S. 2905, The Civil Service Pension Reform Act of 1982, would "Grandfather" in workers vested under the Civil Service system. The League has grave reservations about its effects on both current employees and new hires. Maintaining and administering two or three separate systems would be enormously costly. The startup costs for the new system would be extreme, and it could take up to 75 years to phase out the old system.

Placing government and postal workers under Social Security will not solve the system's underlying financial problems. While billions of new dollars would flow into the system each year, it will also means billions of additional dollars flowing out of the system in future years. There is no evidence to support the claim that a merger of Social Security and CSR programs will save costs to taxpayers.

One should not disregard the fact that considerable revenue will also be lost if the universal coverage concept is pursued. Civil Service retirees paid 1.26 billion dollars in federal income tax in 1979. Ten percent of their income goes to federal taxes and six percent to state and local taxes.

The National League of Postmasters believes that Congress should consider and correct the causes of the financial problems of Social Security. Some of the factors that have caused these problems include high inflation, skyrocketing medical costs and high unemployment.

FACT SHEET ON UNIVERSAL SOCIAL SECURITY VERSUS CIVIL SERVICE RETIREMENT

Postal employees have their own comprehensive retirement plan establishment in 1920 as an employee contributory plan designed for retirement.

Social security is a form of a social insurance program for workers in the private sector not covered by a pension plan. It was never intended to be the sole source of retirement income.

Congress will have to appropriate more than $200 billion to the civil service retirement system to cover their unfunded liability due to the system.

Placing new hires under social security cuts off the flow of new money to the civil service retirement system.

The Federal Treasury will lose tax revenue since civil service annuities are taxable.

The present civil service retirement system is financially sound. Taking money from a sound system to shore up a troubled one in the short term is not the answer to social security problems.

At no time as extension of coverage resulted in greater financial security for social security.

It will prove demoralizing and discourage capable and qualified people from seeking federal employment.

Many postal employees will face no retirement income when they reach retirement age 20 years or less down the road. The civil service retirement system will be broke.

Civil service beneficiaries have always contributed a higher percentage of their salary, and pay on their total salary. Which is presently 8.3 percent which includes medicare coverage.

How long will Congress pay into two systems. We point to the experience with the railroad retirement system. Once Congress had to appropriate the money, benefits were substantially cut back.

The President's Commission on Social Security only concerned itself with raising revenues while failing to address the question of what the ultimate cost will be to taxpayers.

A question of such magnitude and individual impact deserves a full study and hearing including the affected parties.

A reduction of 1 to 2 percent in unemployment would more than offset any alleged benefits derived from mandatory coverage of Federal employees.

STATEMENT OF CHARLES A. BOLAND, NATIONAL LOTTERY ASSOCIATION, KING OF PRUSSIA, PA.

A NATIONAL LOTTERY TO FINANCE THE SOCIAL SECURITY SYSTEM

With the success of the state-run lotteries which are providing much needed financial relief, the United States Congress should investigate the feasibility of operating a National Lottery to help finance the ailing Social Security System.

The resurgence of the state-run lottery began in 1963 with the New Hampshire Sweepstakes and continues up to the present where in 15 states, Puerto Rico and Guam, lotteries are operating successfully.

The proceeds from state-run lotteries are utilized for many worthwhile programs. In New Jersey over a 10 year period, the state lottery has contributed one billion dollars to its educational institutions. Recently, the Governor of Pennsylvania has announced a proposal to set aside $300 million from the proceeds of the state lottery to assist unemployed homeowners to meet delinquent mortgage payments.

Many non-lottery states are now reviewing the state lottery as a means of relieving their fiscal problems. In a recent survey, over 50 percent of the citizens from these states answered "Yes" when asked, "Would you favor a government operated Lottery?"

Government run lotteries for the common good are not new. Queen Elizabeth I conducted lotteries to finance repairs on British seaports. Throughout Colonial America, lotteries were run for programs to help the Colonies and some colonists. George Washington, Thomas Jefferson and George Mason were sponsors or participants in lotteries. This method of obtaining revenue from the citizens was more palatable than taxing them. The Colonists abhorred taxes just as the citizens of today do.

The income from government run lotteries can be looked upon as a painless tax. It is revenue the state will not have to collect from its citizens. The United States Government will find similar funds from a National Lottery. The proceeds from the lottery after expenses could be used to finance the Social Security System.

Currently, there are federal anti-lottery laws. These laws were enacted as a result of the abuse in privately run lotteries that were operating toward the end of the 19th Century. U.S. Code, Title 18, Section 1307, exempts state-run lotteries. A national lottery should be exempted as well.

In deference to states that have laws prohibiting lotteries, these laws would be respected. However, Social Security recipients in non-lottery states would still benefit from the proceeds of a national lottery. It is suggested that the question of a national lottery to finance the Social Security System be placed on these states' referenda.

How successful would a National Lottery become?

Based on the favorable results of the state-run lotteries, a national lottery would do likewise. One in place and accepted, it would have excellent support from the populace. Today, the state-run lotteries are on a solid foundation and fund many worthwhile programs. Programs which would have been financed by increased taxes or dropped for lack of funds were it not for the lottery. These lotteries will be around for a long time despite any shortcomings they may have.

State lottery executives consider their lotteries as a form of leisure time entertainment. The lottery player, besides entertainment, looks upon legal gambling as a form of revenue sharing. Sixty-five percent of these individuals surveyed felt that state-run lotteries would yield "a lot more money to run the government." More than any other form of gambling, the citizens' view of the lottery is that the common man has more of a chance to get rich.

The law enforcement community favors a legalized lottery because the illegal numbers activities would decrease and this would allow them to spend more time on serious crimes. This would be more valid if the winnings from the national lottery were tax free.

Why should the United States Congress consider the establishment of a national lottery to finance the Social Security System?

Because of the financial trouble the Social Security System finds itself in. Many of the proposals that have been presented to save the System, if enacted, will place a burden on the participants whether it is in increased social security taxes or raising the retirement age. These are severe measures that will only provoke the ire of the citizens. By having a national lottery, the purpose of which is to help finance the Social Security System, there will not be a tax burden on the citizen.

The National Lottery could become a multi-billion dollar commercial enterprise. If conducted properly, the total gross sales could reach these figures in a relatively short time. The New Jersey State Lottery took two years to reach the second billion dollars of gross revenue.

State lotteries revenue equal a net tax revenue of 1-2 percent of these states' total tax collected. The distribution of state lottery revenue is: 45 percent of the gross lottery sales goes to state programs. 40 percent of the gross sales goes to winners of the lotteries. 10-15 percent goes to operating cash.

The plans currently presented to the committee are a burden on all tne participants of the Social Security System. Many of the recipients of social security are already living below the poverty level. After contributing to social security for so many years, they are now being penalized through no fault of their own. The young people and present contributors to Social Security are being burdened to carry an exorbitant tax, the benefit of which may not be available to them when their time comes for retirement.

There is fear that the Social Security System will fail. Recall how our elderly were treated before there ever was a Social Security System. For a good understanding of life for our senior citizens before Social Security, I suggest reading John Steinbeck's "Grapes of Wrath."

A National Lottery to finance the Social Security System will insure its viability. It is a proposal whose time has come.

NATIONAL RETAIL MERCHANTS ASSOCIATION,
Washington, D.C., January 28, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The National Retail Merchants Association endorses swift enactment of the consensus report of the National Commission on Social Security Reform.

The report is not a perfect solution to the problems of refinancing the Social Security System. However, taking into account the urgency of enacting legislation which expeditiously addresses the major financial deficits of the system projected in the near term, from 1983 to 1990, NRMA has concluded that enactment of the report in its present form is essential.

NRMA would of course review its endorsement if the Commission's report is changed substantially or if any extraneous amendments are added to it in the course of its consideration by Congress.

NRMA believes that agreement by a majority of the Commission on a consensus report is an extraordinary achievement, and the Association pledges its full support in securing passage of the report by Congress.

NRMA is a national nonprofit trade association composed of 3,700 leading chain, department and specialty store firms in the general merchandise retail industry. NRMA's member firms have current annual sales in excess of $135 billion and they employ 3 million workers.

Sincerely,

WILLIAM P. ARNOLD,
Chairman of the Board, Associated Dry Goods Corporation, and Chairman of the Board, National Retail Merchants Association.

Statement of Wilbur S. Wood, President, National Rural Letter Carriers' Association

Mr. Chairman and members of the committee: My name is Wilbur S. Wood and I am President of the 65,000 member National Rural Letter Carriers' Association. I am pleased to have this opportunity to express the Association's views concerning the Social Security financing package presently before the Committee.

Rural letter carriers, like all Americans, share a deep and abiding concern for the fiscal well-being of the OASDI program. That program's solvency, today and for the future, underscores the government's ability to fulfill its most deeply-rooted of obligations to the American people. As individuals with long histories of payroll contributions based upon OASDI covered private sector employment, and expectations of duely-earned Social Security benefits, rural carriers strongly believe that those obligations should be met.

But we also believe that care must be taken to insure that today's solutions to Social Security's financing ills not exacerbate tomorrow's burdens to the taxpaying public at large. It is out of this deeply held belief that the proposal to extend OASDI coverage to newly-hired federal workers is a poor solution to an unduring and as yet unanswered problem, that we oppose the package presently before the Committee.

Our opposition to the proposal to extend OASDI coverage to newly-hired federal workers centers around the following points:

The goal of universal social security coverage is an illusory one. Constitutional impediments and issues rightfully surrounding separation of church and state will preclude the Congress from extending coverage to state and local government employees, or to the employees of many religious based non-profit groups. If universal coverage is the Congress' motivation behind extending OASDI participation to newly-hired federal workers, then it is an illusory one which will never be met.

The President's Commission on Social Security has badly overestimated the revenue savings associated with their coverage proposal. From an initial propcsed savings to the Social Security system of $18 billion, more recent Commission reports have downward revised the alleged savings to the $8 to $10 billion range. This near 50 percent drop in anticipated savings alone should force Congress to carefully reevaluate the credibility of the Commission's coverage proposal.

We remain convinced that the Commission has not fully evaluated the loss to OASDI of future beneficiary payments. It is true that coverage would, in an immediate sense, generate new revenue for the OASDI system. But today's contributor, both in the short and long-run of OASDI covered employment, will become tomorrow's beneficiary. Current and future federal workers are and will be contributing to OASDI with the expectation of getting something back from that system.

The government would lose substantial tax revenues by extending coverage to newly-hired federal workers because civil service annuities are fully taxable while Social Security income is tax-free.

The only other time in recent memory when the Congress attempted to coordinate the retirement benefits of Social Security with an existing retirement system, they created the debacle now known as the Railroad Retirement System. Badly underfunded, in constant need of supplemental appropriations from the Congress, the horror stories surrounding the Railroad Retirement System are all too familiar. With that sort of track record, it is rather easy to see why current federal workers are reluctant to accept Congress' well-meaning guarantees that "they will be taken care of".

The Presidential Commission proposal to extend OASDI coverage to newly-hired federal workers was offered with the expectation that a supplemental employer-sponsored pension would be established for those workers. However, no where in the Commission's report, nor any place in this Committee's files, exists an adequate proposal for developing that supplementary system. Again, on "good faith", Congress asks the federal work force to accept that such a system will be created. But how, and when, and by what fiduciary standards? Will it be a defined benefit or defined contribution plan? Will it employ an add-on, variable, or fixed-rate approach in calculating aggregate benefits? Certainly the parameters of such elementary questions should be answered before federal workers are asked to accept the creation of a fundamental rift in their retirement program.

It is just that rift which concerns us most. If OASDI coverage is extended to newly-hired federal workers, and a supplemental staff retirement plan created, then Congress will have succeeded in splitting the federal work force in two. As the current federal work force dwindles, and the number of participants in the new civil service staff retirement system grows, what is known in actuarial terms as a closed set will have been created for current workers and CSR's beneficiaries. Our leverage on the Congress for improvements in or liberalizations to the present Civil Service Retirement System program will be lost. Beneficiaries covered by the existing Civil Service Retirement System program will certainly then be confronted with the likelihood of gradual diminutions in their retirement benefits as the needs of the new staff plan grows.

It is my hope that we have succeeded in raising the spectre of doubt in your minds about the coverage proposal. We believe that extension of OASDI coverage to federal workers is ill-advised, and that careful reflection by Committee Members and their colleagues will lead them to the same conclusion. Social Security coverage of newly-hired federal workers is just the sort of panacea that the OASDI program does not need.

We appreciate this opportunity to express our views.

NATIONAL SOCIETY OF PUBLIC ACCOUNTANTS,
Alexandria, Va., February 15, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The National Society of Public Accountants wishes to take this opportunity to add its statement to the record on the recommendations of the National Commission on Social Security Reform.

The National Society is an individual membership association composed of 17,000 independent public accountants throughout the United States, with an affiliated state organization in each of the fifty states, the District of Columbia and the Commonwealth of Puerto Rico. Our members provide auditing, accounting, tax and management advisory services to more than four million small businesses throughout the country and are, of course, vitally concerned with the issues and problems facing their small business clients.

We believe that most of the current problems faced by our Social Security system can be traced back to overly generous benefits. The adoption in 1972 of provisions giving retired workers full COLAs without limit has led to an insupportable burden on small business in the form of payroll taxes necessary to support the beneficiaries under the system. It is my belief and judgment that COLAs should be adjusted to slow down their acceleration and that they should be limited to a percentage of the cost of living increase. If the cost-of-living benefits were indexed to a limited percentage of the cost-of-living increase with a recommended maximum of four percent and a minimum of two percent, I seriously question whether either an increase or an acceleration in payroll taxes would be necessary. Payroll taxes impact most severely on the small business which is unable to shift those taxes in any direction. The numerous disadvantages are detrimental to both small business and its intensive labor force.

Accordingly, it is my hope that the Committee on Ways and Means will give its careful consideration to reform options that will not break the finanical backs of small businesses who are the major employers of the labor force in our economy.

Sincerely yours,

LOUIS MIRMAN, *President.*

STATEMENT OF NATIONAL WOMEN'S LAW CENTER, CENTER FOR WOMEN POLICY STUDIES, CHILDREN'S FOUNDATION, MEXICAN-AMERICAN LEGAL DEFENSE AND EDUCATION FUND, NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE, NATIONAL COUNCIL OF CATHOLIC WOMEN, NATIONAL COUNCIL OF NEGRO WOMEN, NATIONAL COMMISSION ON WORKING WOMEN, NATIONAL INSTITUTE FOR WOMEN OF COLOR, NATIONAL WOMAN'S PARTY, OFFICE OF PUBLIC POLICY, WOMEN'S DIVISION—UNITED METHODIST CHURCH, WASHINGTON, D.C. CHAPTER, NATIONAL CONFERENCE OF BLACK LAWYERS, WOMEN'S LEGAL DEFENSE FUND, AND WOMEN USA, PRESENTED BY NANCY DUFF CAMPBELL, NATIONAL WOMEN'S LAW CENTER, WASHINGTON, D.C.

This testimony presents the views of the National Women's Law Center; Center for Women Policy Studies; Children's Foundation; Mexican-American Legal Defense and Education Fund; National Black Child Development Institute; National Council of Catholic Women; National Council of Negro Women; National Commission on Working Women; National Institute for Women of Color; National Woman's Party; Office of Public Policy, Women's Division, United Methodist Church; Washington, D.C. Chapter, National Conference of Black Lawyers; Women's Legal Defense Fund; and Women USA on the impact on women of the recommendations of the National

Commission on Social Security Reform designed to ensure the continued solvency of the Social Security system.

The importance of the Social Security system to women, especially low-income women, is beyond dispute. Women represent 53 percent of all Social Security beneficiaries, and 67 percent of all individuals living in poverty.[1] Women and children represent 64 percent of all Social Security beneficiaries and 75 percent of all individuals living in poverty. Moreover, families maintained by women have a poverty rate six times that of families maintained by men or by couples—31 percent versus 5 percent. Minority families have even higher rates—over 50 percent of minority families maintained by women live in poverty.

For older women and disabled women in particular, the solvency of the Social Security System is critical. Women are 60 percent of all Social Security beneficiaries over the age of 65, and 71 percent of all the elderly poor. Indeed, older women are nearly twice as likely to be poor as older men. Moreover, women of Hispanic origin over the age of 65 have poverty rates nearly three times those of men, and Black women have rates nearly four times those of men. Women are 44 percent of all Social Security beneficiairies receiving benefits as disabled workers or as surviving spouses of disabled workers, and 74 percent of all the disabled poor. Although racial and ethnic-origin data of disabled women is not readily available, in general Black and Hispanic-origin individuals are 25 percent more likely to be disabled than white individuals.

The poverty of many women Social Security beneficiaries is a reflection in part of women's general economic status. Women's employment in low-wage jobs in predominately female occupations, as well as their sporadic employment histories due to family responsibilities, result in Social Security workers benefits that are far below those of men. In April, 1982, the average monthly Social Security benefit for retired women workers was $335 as compared with $433 for retired men workers; for disabled women workers it was $327 as compared with $454 for disabled men workers. Women who receive benefits as spouses or widows fare equally poorly. In April, 1982, the average monthly wife's benefit was $196; the average monthly benefit of a wife of a disabled worker was $119; the average monthly widow's benefit was $351; the average monthly disabled widow's benefit was $226.

For women the continued solvency of the Social Security system is obviously critical. Our testimony today addresses the impact on women of the package of recommendations contained in the January 1983 Report of the National Commission on Social Security Reform, designed to alleviate the financing problems of the Old Age and Survivors Trust Fund (OASI). At the same time we wish to make clear that changes in the current system must go beyond those in the Commission's Report needed to ensure solvency, and encompasses reforms that will make the system more equitable for women. In particular, improvements must be made that will make the system responsive to the changed roles of women in society and the economy since the Social Security Act was enacted in 1935. The earnings sharing proposals of Representative Oaker and Senator Cranston provide the beginning framework for debate on the best ways to improve the system for all women. Once the current financing problems are resolved, these proposals should be given serious consideration by both houses of Congress. Women should not be made to wait longer for these needed reforms.

A. THE COMMISSION'S CONSENSUS RECOMMENDATIONS

The importance of treating the Commission's consensus recommendations as a package has been stressed by many. Although we understand that in the end the Commission's recommendations may stand or fall as a package, we believe that modest modifications of one or more of the recommendations should be possible under any scenario. We urge the Congress to consider the impact on women of any proposals it may enact into law, including those described here, and to adopt the modifications we propose in the Commission's recommendations.

1. Cost-of-living adjustment changes

Since 1972, automatic cost-of-living adjustments (COLAs) tied to price increases have provided some measure of protection against the ravages of inflation for Social

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[1] Statistics used in this testimony are culled from many sources, most of which are government documents. Secondary sources relied upon include materials of the Children's Defense Fund, Disability rights Education and Defense Fund, Inc., Mental Health Law Project, Older Women's League, Women's Equity Action League, and Women's Research and Education Institute of the Congressional Caucus for Women's Issues, all of whose assistance we gratefully acknowledge.

Security beneficiaries who, almost by definition, live on fixed incomes. Benefits are adjusted each July to reflect increases in the Consumer Price Index, when the increase has been at least 3 percent.

The Commission recommends that future COLA increases be payable in January, rather than July. In addition, the July, 1983 increase would not be paid, so that the next benefit adjustment would occur in January, 1984. This six-month delay in cost-of-living increases at the current inflation rate of 3.9 percent could result in an average benefit reduction for women of approximately $15 a month.

Because of the large numbers of women receiving Social Security benefits, and their far greater dependency on such benefits than men, this recommendation will impact more disproportionately on women than any other of the Commission's recommendations. If some cut in benefits must be a part of any financing package, a three-month delay would be far more acceptable than a six-month delay.

In an attempt to alleviate the impact that this recommendation would have on very low-income individuals, the Commission recommends a monthly increase, from $20 to $50, in the amount of Social Security benefits that may be disregarded in determining both eligibility for and the amount of Supplemental Security Income (SSI) benefits. The increase in the SSI disregard will help to offset the Social Security benefit reductions for those nearly 70 percent of aged SSI recipients who are also Social Security recipients, a majority of whom are women. However, it is estimated that over half of the aged poor, for one reason or another, do not receive SSI. To the extent they are not eligible for SSI (for example, because of income or assets above the SSI eligibility levels), the increase in the SSI disregard will be of no help to them. In order to ensure that all Social Security recipients who are eligible for SSI apply for such benefits—and thus minimize the detrimental effect of the proposed change in the Social Security COLA—all Social Security recipients with benefits below the SSI eligibility levels—(including the new $50 disregard) should be notified of their potential SSI eligibility, and follow-up work should be done by Social Security staff to ensure that individuals eligible for SSI who desire to apply for SSI are able to do so.

In addition, to further ensure that SSI beneficiaries are not harmed by any delay in the Social Security COLA, care must be taken in drafting to ensure that the SSI COLA, which is now tied to increases in the Social Security COLA, is not eliminated for July, 1983. To keep the SSI and Social Security COLAs generally tied together, however, SSI recipients should have their benefits adjusted as scheduled in July, 1983, and thereafter in January of each year. (For the first year they would receive a six-month adjustment in January, 1984.)

2. Advancing payroll tax increases

Another Commission recommendation which disproportionately impacts on women, in this case younger women in the workforce, is the advance in the payroll tax increase. Under current law, the Social Security payroll tax is scheduled to increase in 1985, 1986, and 1990. The Commission recommends accelerating some of the increase by (1) moving to 1984 the OASDI tax rate scheduled for 1985, (2) retaining for 1985-87 the rate as scheduled under current law, and (3) moving to 1988-89 part of the rate scheduled for 1990. (The Health Insurance tax rates for all years would be unchanged.) For 1984, only, a refundable income tax credit would be provided against an employee's federal income tax liability in the amount of the increase in his or her taxes over what would have been payable under current law.

This proposed change would result in an increase in the employee's and the employer's total Social Security tax burden in 1984 of 7.0 percent each, up from the current 6.7 percent each. By 1988-89 the rate would increase to 7.51 percent each, up from the 7.15 percent scheduled under current law. For 1990 and after, the rate would be 7.65 percent each.

Because of the impact that these rate increases will have on low-income workers in particular, many of whom are women single heads of families, it is essential that they be coupled with a refundable federal income tax credit not only for 1984 but for all or part of the succeeding years as well. Indeed, the rate increase that the Commission proposes to advance to 1984 is smaller than the increase it proposes to advance to 1988, and by 1990 the rate will have increased nearly one whole percentage point over the current rate. For an individual earning $10,000 annually the increase would amount to $30 in the first year but (assuming a constant salary) to $105 by 1990. Clearly it is equally if not more important for that individual to obtain income tax relief in the later years as it is in 1984.

Although earlier opinion polls showed that the public prefers higher Social Security taxes to benefit cuts for current or future recipients, a recent Washington Post-ABC News poll showed lack of majority support for the tax increases proposed by the Commission. Not only low-income workers in general but also workers employed by small businesses (many of whom are low-income workers) stand to lose from this proposal, because of the burden these increases will place on such employers. Hiring and other personnel decisions, which impact more severely on women because of their high unemployment rates, may be affected by this change.

If some increases in tax rates must be part of the package, the increases proposed by the Commission are preferable to other options it was considering, including advancing the 1990 increase to 1984. But we urge that any such increases be accompanied by a refundable income tax credit against all or part of the increases, to ease the burden on low-income workers.

3. Coverage of employees of non-profit organizations, new Federal employees, and State and local government employees

Under current law, Social Security coverage is voluntary for nonprofit organizations, such as religious institutions, most hospitals, certain research and educational institutions, and charities. Approximately 85 percent of the at least 6.5 million employees of non-profit organizations are covered by Social Security. Similarly, Social Security coverage is voluntary for state and local governments. Approximately 75 percent of the 13.5 million state and local government employees are covered by Social Security. The third largest group of employees not covered by Social Security are the over 2.6 million employees of the federal government, who are excluded by law from such coverage.

The Commission recommends that, as of January, 1984, Social Security coverage be mandatory for all employees of non-profit organizations, new employees of the federal government, and all employees of state and local governments that have not withdrawn from the system. Each of these changes would in general benefit women, for several reasons.

In the case of both non-profit organizations and state and local governments who opt out of Social Security, there is no requirement that they offer their employees an alternative pension, disability and/or life insurance plan. Moreover, to offer such a plan that is at all comparable to Social Security can be as expensive as Social Security coverage, thus undercutting the reason that most employers opt out of Social Security in the first instance—to save money. Finally, even good private plans do not always provide the best protection to low-wage intermittent workers—most of whom are women. There may be long periods before a pension vests, and the contributions may not be able to be transferred from one job to another. In addition, automatic cost-of-living adjustments are not often a part of such pension plans. Finally, benefits for spouses as well as survivors (especially divorced spouses and divorced surviving spouses) may be nonexistent or optional with the worker, and, if they exist, are accompanied by a reduction in the worker's benefits. Since women usually outlive their husbands by a number of years and, because of their work histories and low wages, are more in need of protection as spouses, ex-spouses and survivors than are men, the absence of such protection for them under these plans is a critical deficiency.

For similar reasons, the mandatory coverage of new federal employees is beneficial to women, assuming that the Civil Service Retirement System is modified to include a supplementary retirement plan (similar to those in the private sector) that provides, together with Social Security, retirement income equivalent to that that will be received by current federal workers who will continue to remain outside the Social Security system. Stringent vesting requirements, the non-portability of contributions, the non-mandatory nature of the protection for survivors and the absolute lack of protection for divorced surviving spouses all render the federal Civil Service Retirement System generally less advantageous to women than the Social Security system. Even the most important area in which the federal system is more advantageous than Social Security—in the amount of benefits paid to high-earner career civil servants—is less important to women than it is to men, because the top echelons of government are still dominated by men. However, an adequate supplementary retirement plan for new federal employees should be a part of any plan enacted, to make up for any income loss occasioned by mandatory Social Security coverage.

4. Increasing the Self-Employment Tax

Under current law self-imposed persons pay slightly more that two-thirds of the combined employer/employee tax rate for wage and salary workers, but they receive benefits as if they had paid the full amount. The Commission recommends that the tax rate for self-employed be raised to the combined employer/employee rate, effective January, 1984. In addition, the self-employed would be permitted to deduct one-half of the new payment as a business expense for federal income tax purposes.

Although the deduction would offset some of the increase, the increase would still be a sizeable one, especially because it is an increase to the level of an also-increased combined employer/employee payroll tax rate. Moreover, women who are self-employed (although they are only one-third of all non-agricultural self-employed workers) earn less than their male counterparts. The median income from self-employment in 1981 was $7,912 for men and $1,688 for women. Although these totals may underrepresent total family income because many self-employed persons hold onto their part-time or full-time jobs (in 1981 the total family income was higher for self-employed of both sexes than for wage or salary workers), the increase will represent a substantially greater burden for low earners than for high earners. For these reasons the deduction from federal income taxes proposed should be converted to a credit against such taxes, to further ease the total tax burden of the self-employed.

5. Taxation of benefits

Under current law, Social Security benefits are not taxed—in part because the employee's contribution to the Social Security system is not tax-exempt. The Commission recommends taxing part of the Social Security benefits received by higher-income individuals and couples. Single taxpayers with adjusted gross incomes of $20,000 or more and couples with adjusted gross incomes of $25,000 or more (in both instances, not counting their Social Security benefits) would have 50 percent of their Social Security benefits added to their adjusted gross incomes in calculating their federal income taxes.

This recommendation would have very little impact on women living alone or who are the sole support of their families, because of their low incomes, and would have no effect on low- or moderate-income beneficiaries in general. In 1981, just under 6 percent of all unrelated individuals at least 65 years old, and 22 percent of families headed by a householder at least 65 years old, had incomes (before any deductions used to determine adjusted gross income for tax purposes) of $20,000 and $25,000 or more. The $20,000 and $25,000 figures should be indexed, however, to ensure that they continue to reflect a decision to tax only higher-income Social Security beneficiaries.

Two problems with the $20,000 and $25,000 figures remain which need addressing. First, a differential of only $5,000 in income for couples represents an inequitable marriage tax because two single individuals living together could have far more total income before taxation of their benefits than could be a married couple. Second, as the Commission itself recognizes, a "notch" is present in its proposal in that those with adjusted gross incomes of just under the limit of $20,000/$25,000 would have a larger total income (including Social Security benefits) than those with adjusted gross incomes just over the limit. Both of these problems need correcting in the legislative process.

Although objection has been raised to the taxation of benefits in this manner because it introduces means testing into the Social Security system, we do not share this objection. Indeed, the system already targets greater benefits to those at the lower end of the income scale through the weighted benefit formula and this recommendation is fully consistant with that aspect of the system, which we consider an essential component of Social Security.

6. Delayed retirement tax credits

Under current law, a worker who postpones retirement beyond age 65 receives a 3 percent "bonus," or increase in Social Security benefits, for each year of postponement up to age 70. The Commission recommends that this bonus be increased gradually to 8 percent beginning in 1990.

This approach to encouraging a longer worklife is a salutory one, and certainly far preferable to one of increasing the retirement age (see discussion infra). It is likely to have little impact on women, however, for several reasons. First, most workers, but particularly low-income workers (many of whom are women) retire between the ages of 62 and 65, despite the bonus in the current law. Moreover, most women retire when their husbands retire and are typically younger or the same age as their husbands so that they retire at age 65 or somewhere between ages 62 and 65.

7. Benefit formula changes for individuals entitled to pensions from noncovered employment

Under current law, individuals with low earnings from covered employment receive a relatively high Social Security benefit in proportion to their earnings because of the weighted benefit formula, which was designed to assist low-income workers and their families. When an individual works for many years in non-covered employment, however, he or she may receive a substantial pension as well as a high Social Security benefit, the latter being higher than it would have been if he or she had worked for an equivalent amount of time in covered employment because of the weighted benefit formula. The Commission recommends eliminating what is termed the "windfall" portion of this Social Security benefit by reducing the weighting factors in the formula for persons with pensions from non-covered employment, effective for individuals becoming eligible for such pensions after 1983. The goal is to provide these individuals with Social Security benefits that are "more nearly of a proportionate basis than the heavily-weighted benefits now provided." Commission Report, p. 2-9.

This change would result in a benefit cut for some Social Security recipients as early as 1984. It is difficult to analyze its impact on either women or men until the details of the way in which it would be accomplished are known. If such a change must be made, it should be made in some manner that ensures that those with low pensions, for whatever reason, are not penalized. We prefer a variation of the second method suggested by the Commission: first apply the present benefit formula to an earnings record that combines both covered earnings and non-covered earnings, for the purpose of determining a replacement rate; then apply that replacement rate to the average earnings based solely on covered employment. In addition, however, those with pensions below a certain monthly amount should be entitled to the weighted benefit formula as under current law. This would ensure that persons with low pensions from non-covered employment are not penalized, because their Social Security benefits are likely to be so essential to their livelihood.

8. Potential later changes in cost-of-living adjustments

As noted above, cost-of-living adjustments are currently tied to increases in the Consumer Price Index. The Commission recommends that if, beginning in 1988, the OASDI trust fund reserves at the beginning of any year fall below 20 percent of annual outgo from the fund, cost-of-living adjustments would be based on the lower of price or wage increase, until the ratio again reached 20 percent. At that time COLAs based on the CPI would be resumed. In turn, if the ratio reaches 32 percent at the beginning of a year, supplemental payments would be made to Social Security recipients to make up for any use of wage instead of price increases, to the extent that funds above the 32 percent are available.

The purpose of this recommendation is to provide a "stabilizer against the possibility of exceptionally poor economic performance over a period of time." Commission Report, p. 2-17. Although the purpose is laudable, the effect may well be a substantial benefit cut for future recipients if prices rise faster than wages. This is a particular problem for those recipients who receive low benefits and/or have low total family income, the vast majority of whom are women. Alternative stabilizers, without these deleterious effects, should therefore be pursued.

9. Changes in benefit provisions that affect mainly women

In partial recognition of the special problems that women encounter under Social Security, the Commission included within its recommendations four proposals that would improve the benefits that women now receive. Each proposal affects a relatively small percentage of the recipient population, and accordingly even the total cost of all the provisions is small. Although these proposals are in no way a substitute for the greater structural changes in the system that are needed to improve the status of women generally under Social Security, they are a start. They should be adopted with the minor modifications suggested below.

a. Remarriage benefits

Under current law surviving spouses who remarry after age 60 are permitted to continue to receive Social Security benefits based on their deceased spouse's earnings record. However, due to a technical drafting oversight, several categories of widows and widowers were not included in the current statutory provision permitting remarriage without loss of benefits. The Commission recommends correcting this oversight by permitting remarriage without penalty for (1) disabled surviving spouses aged 50–59, (2) disabled divorced surviving spouses aged 50–59, and (3) divorced surviving spouses aged 60 or over.

This recommendation treats divorced and disabled surviving spouses like all other spouses and hence should be enacted. Its cost estimates are low because remarriage is not a viable option for most older disabled surviving spouses or divorced spouses, particularly women. The remarriage rate per 1,000 women aged 45–64 was just 13.6 in 1977. It was 2.6 per 1,000 for women aged 65 and older.

b. Retirement of divorced spouses

Under current law a divorced spouse whose marriage lasted at least 10 years is not eligible for a retirement benefit until her (less often, his) spouse retires. The Commission recommends that a divorced spouse be able to collect benefits when she or he reaches retirement age if the ex-spouse is eligible for retirement benefits, regardless of whether the latter benefits have been claimed.

This recommendation is an important one for divorced women whose ex-spouses postpone retirement or decide not to retire at all. Although the result is that divorced spouses may become entitled to benefits before current spouses whose marriage partners have postponed retirement or decided not to retire, this result is justified by the fact that the marriage is still intact in the latter situations and the economic circumstances are therefore likely to be different. The estimated cost of this recommendation is low because the numbers of individuals who would benefit from it is small. Most men retire by at least age 65 and their ex-wives are typically younger or the same age as they are so that by the time they reach retirement age their ex-husbands will have retired. In addition, because divorced men usually receive benefits on their own records rather than spouse's benefits, and are older than their spouses, this change would have little impact on them.

c. Wage-indexing of earnings records

Under current law, surviving spouses—unless they are disabled or have young children in their care—must wait until age 60 to receive Social Security benefits. Benefits are calculated on the deceased spouse's earnings record, indexed according to changes in the Consumer Price Index. The Commission recommends that wage indexing be used instead. Although this proposal is intended to increase survivor's benefits—because wages traditionally rise faster than prices—in recent years prices have risen much faster than wages. Accordingly, the proposal should be modified to provide that wage or price indexing, whichever is more favorable, should be used. This is necessary to ensure that no one is harmed by this proposal, and should add nothing to the already-low cost estimates because it simply reflects the cost that would have occurred under current law.

Because the average age of widowhood is 56, a substantial number of women stand to benefit from this proposal. Hence the indexing method used to determine their benefits is critical—even more so if they are widowed at a younger age or wait until age 61 or later to collect their survivor's benefits.

d. Disabled surviving spouses

Under current law, disabled surviving spouses claiming benefits at ages 50–59 receive benefits based on 50 percent of the deceased spouse's primary insurance amount (PIA, or the amount on which all monthly Social Security benefits are based), at age 50, gradually increasing to 71.5 percent at age 60. The Commission recommends that disabled surviving spouses aged 50–59 received benefits based on 71.5 percent of the deceased spouse's PIA, the same rate that is currently applicable to non-disabled surviving spouses first claim benefits at age 60. The change would be applicable not only to new beneficiaries but also to beneficiaries who are on the rolls as of the effective date of the provision.

This is an important change for disabled surviving spouses, especially women (most disabled men receive benefits based on their own rather than their spouse's earning records). Because they are unable to work, and alternative sources of income are likely to be non-existant, they cannot wait until age 60 to take advantage of the higher rate in current law. Indeed, consideration should be given to providing them with 100 percent of their deceased spouse's PIA, since the cost of the proposed change is very low. Even under a raise to 71.5 percent, the benefits to individuals may be substantial. In 1979, a disabled 50-year-old widow received a monthly benefit or, on the average, about $155. Under the proposed change her monthly benefit would have been approximately $222.

B. FINANCING PROPOSALS BEYOND THOSE IN THE COMMISSION'S CONSENSUS PACKAGE

The Commission estimates that its consensus package of recommendations should meet the short-range financing deficit projected for the Social Security system, as well as about two-thirds of the long-range deficit. Seven of the Commission's twelve members agree that the remaining one-third of the long-range deficit should be met by an increase in the normal retirement age of 65 at the rate of one month a year—to age 66 in 2015, beginning the phase-in with those who attain age 62 in 2000. Beginning with those who attain age 62 in 2012. The normal retirement age would be automatically adjusted (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential work-lifetime (from age 20 to the "normal" retirement age) remains the same over the years as it was in 1990.

The other five Commissioners agree that the remaining one-third of the long-range deficit should be met by an increase in the payroll tax rates in 2010 of slightly less than one-half percent (0.46 percent) of covered earnings on the employer and the same amount on the employee (with an equal combined rate for the self-employed), with the employee's share of the increase offset by a refundable federal income tax credit. Alternatively, these Commissioners agree the revenue could be supplied by an equivalent general revenue contributions, or some combination of general revenue contributions and tax increases.

To the extent that Congress finds it necessary to enact legislation now to meet all of the projected long-range deficit, we prefer the approach of the five Commissioners and affirmatively oppose that of the seven Commissioners, or other proposals to increase the age of retirement. First, increases in the retirement age represent benefit cuts. If the age is raised to 68, benefits would be reduced by 20 percent relative to those received at age 65; if it is raised to age 67, the cut is 13 percent; and if raised to age 66, the cut is 7 percent.

Those who would suffer most from this proposal are those who could not work or could not find jobs up to the newly set retirement age. Although life expectancy has increased since the Social Security Act was enacted with 65 as the normal retirement age, two leading government authorities on health and the aging testified before the Commission that data on increased longevity include no evidence that health improves commensurately. If anything, what evidence there is demonstrates the contrary: more people are living longer but with more chronic illness and impairments. Also, recent increases in longevity may be related to retirement at earlier ages.

This proposal would also cut future protection for young workers, the very group now being asked to pay in more and for a longer period of time. If changes are to be made that affect the retirement age, a better approach is that adopted in the Commission's consensus recommendations: to increase incentives for later retirement without mandating it for all potential beneficiaries.

In conclusion, we recognize that the consensus recommendations of the Commission represent a compromise of many competing interests and as such we generally support those recommendations with the modifications in them proposed here. In addition, we oppose the recommendation of seven Commissioners to raise the retirement age and in lieu of that recommendation support the raising of additional revenues as the means of meeting additional financial needs of the Social Security System.

STATEMENT OF "ONE-FOR-ALL NATIONAL PENSION PLAN" PRESENTED BY MATHEW N. BATINOVICH

We wish to testify that, in our opinion, Social Security is looked upon as a pension system. However, we, the "ONE-FOR-ALL Pension Plan", look upon it as a "welfare" system. We deem it disgraceful, unfair and inequitable. Some of the things we find unpalatable are as follows:

A. FUNDINGS

It is funded unfairly as it places an unfair burden on our younger generation. It is inequitable to the majority of the workers. For example, a person earning less than $35,000 a year must pay tax on his/her entire salary while a person in the higher brackets pays no taxes above that amount. Also, as the earnings decrease so does the amount going into the fund.

B. COVERAGE

The system excludes too many of our people, such as many housewives, farm workers, some domestics, part-time workers and others.

C. QUALIFICATIONS

Basing eligibility on working years, working quarters and on earnings is unfair and unjust as there are too many variables in salary, working time, and other economic factors. Also, because of the complexities of our society.

D. BENEFITS

Benefits, in most instances, are too low. The persons who are needy do not get enough to live in dignity while those who do not need it get more. The benefit amount should be based solely on the needs of people rather than on a monetary basis.

E. RETIREMENT

Retirement at age 65 is ludicrous in view of high employment, the development of high technology, and the reduction of foreign exports and increase of foreign imports. Also, one must take into consideration the workers in many onerous jobs and in hazardous industries should be allowed to retire at a younger age at their option.

F. DOUBLE/TRIPLE DIPPERS

Persons retiring with private or public pensions may work after retirement and earn an unlimited amount of money while someone on Social Security is penalized if they earn over an amount specified by Congress.

The Private and Public systems are a disaster. Some of the public pensions have become obscene with their outrageous benefits. There are millions of workers in Federal, States, counties and cities who are drawing one or more pensions and salaries. Many workers lose their private pensions because of complex eligibility rules and regulations and transfer of jobs, etc.

There are so many problems with our complex, inadequate and antiquated Social Security System and other pension systems that Congress must wrangle over our disgraceful and chaotic pension mess. They are constantly hashing, rehashing, adding, subtracting and amending in its struggle and efforts to make them viable institutions. The result has been that everyone, young and old alike, are wondering if there will be any pension systems much longer.

Congress must, sooner or later, tackle this problem of our disgraceful pension systems and supplant them with one National Pension to cover every person. Our Organization, the "ONE-FOR-ALL NATIONAL PENSION PLAN", herewith, outlines such a pension system which has been arrived at after a study of over a decade. It is as follows:

ONE-FOR-ALL NATIONAL PENSION PLAN

A. The pension system shall be known as "The National Pension". It will be administered through the current structure and apparatus of the Social Security System.

B. The plan shall cover every person. The plan includes, but is not limited to: domestics, farm workers, lawyers, politicians, labor leaders, union members, doctors, teachers, barbers, homemakers, military personnel, garbage collectors, forest workers, brokers, executives, business people, salespeople, pilots, law enforcement personnel.

C. No person should be forced into retirement as long as that person is able and willing to perform his/her duties satisfactorily.

D. Retirement shall be optional at the age of fifty-five (55), except in hazardous occupations, such as: chemical workers, military personnel, law enforcement officers, miners, retirement would be optional at age fifty (50). (Currently, Japanese employees retire at age fifty-five.)

E. Any person who chooses to retire from the labor market, and/or business or professional field, must do so completely. No retiree shall be permitted to engage in any earning activity either full or part-time. Retirement shall mean total and complete cessation of earned income.

F. If a retiree elects to go back to work, engage in business, and/or re-enter a professional field, that person may do so at any time. However, the pension benefit will stop until such time as he/she again becomes inactive.

G. Pension benefits will be based upon the needs of the average person to cover the essential expenses, so that the retiree will not have to rely on Welfare, charity or help from relatives and/or children.

H. Benefits will be based on years of residency rather than on working time.

I. Funding for the Plan would derive from a value-added tax to be levied on all goods and services with the exception of certain foods and prescribed medicine.

J. Every year there would be a review of the pension benefits, which would rise or fall according to the cost of living.

K. There would be nothing in this Plan that would prohibit a person from buying annuities, certificates, bonds, etc.

SPECIAL NOTE

This Pension Plan would supplant all existing pension systems. There would be no need for private and/or public pension plans. (Currently, these are really nothing more than bonus plans.) All present pension plans would be taken over and administered by the Government until such time as they would be completely phased out. NO ONE'S PRESENT BENEFITS (Pension and/or Social Security) WOULD BE REDUCED. However, if the combined benefits were less than the established retirement benefits, the retirement fund would make up the difference to bring it up to par with the rest of the retirees.

This letter is not to be construed, in any way, in support of any move to abolish, decimate, or weaken the Social Security System by taking away or reducing any benefits, raising the retirement age, putting the system on a voluntary basis, and/or weakening it in any other way. Quite the contrary. For our first step, we wish to improve the system by proposing the following:

(a) Fund the System with a tax on all goods and services.

(b) Raise all present recipients to a minimum of $600 per month.

(c) Suspend all present wage deductions as soon as add-on tax becomes effective.

(d) Make retirement voluntary at age 60. This is to go into effect two years after tax goes into effect. If the retiree elects to go back to work or re-enter the business field after retiring, the pension benefit would be suspended during that period. No more double or triple dippers.

Secondary steps to be taken after five (5) years:

(a) Every person would be covered, since every person would be paying into the fund.

(b) Pension rights would be based on years of residency rather than on working time or earnings.

(c) Pension benefits would be adjusted to provide a liveable benefit.

(d) Voluntary retirement age would be reduced to 55 years.

We propose a retirement tax on all goods and services as the most equitable and solid basis for funding the system. Everyone would be paying into the fund, however, everyone would collect benefits.

Some opponents may say this would be a regressive tax. That is "hogwash". Consumers and taxpayers now, directly or indirectly, pay for all present pensions. Paying taxes to receive a direct benefit is no more regressive than a person paying insurance companies' premiums, auto, fire or other coverage, from which the person may never receive any benefit.

Billions of dollars to preserve life with dignity in our old age is both noble and humane.

It is not enough for us to try to retain the status quo. We must face the fact that the present system will eventually fail to fulfill its intended purposes and outlive its usefulness.

Raising the retirement age is ludicrous especially in this period of high employment. Increasing the employers or corporations' taxes is no solution, as the cost would be passed onto the consumer. Funding based upon earnings is unfair and must be replaced with a more solid and equitable base. A voluntary system is unthinkable.

We invite the Committee to hold hearings on the feasibility of our plan.

Again, we repeat: We do not advocate nor do we wish to see social security or any other existing pension plan, decimated or abolished until the one-for-all national pension system is in its entirety legislated into federal law.

This pension plan is advocated by a non-partisan organization that is a tax-exempt California public benefit corporation.

Neither the founders nor the officers receive a salary or any other kind of remuneration.

STATEMENT OF ROBERT L. PERRY, AND BRYCE WEBSTER, QUALITY OF LIFE PUBLICATIONS

PREVENTING THE WAR BETWEEN THE GENERATIONS

We are the authors of the forthcoming book, "The Complete Social Security Handbook," the most detailed discussion of the Social Security system ever written for a consumer audience. This 225,000-word text (to be published in March by Dodd, Mead) was more than two and a half years in preparation.

We began working on the book in 1980 and followed the struggles which led to the 1980–1 amendments, Mr. Pickle's and President Reagan's proposals in 1981, the creation of the national commission, the ridiculous demagoguery of the 1982 Congressional campaign, and the intense negotiations and maneuvers that resulted in the "compromise" developed by the President's commission.

The continuing Social Security crisis has alienated millions of young working people. All the polls show that they doubt Social Security will be available for them, and if it is, they doubt it will be a significant part of their retirement income. They strongly resent both the increasing tax burden and the cynical political band-aids the $169 billion bail-out represents. If Congress does not take substantive action instead of these handful of painful palliatives, we predict a War Between the Generations. And Congress will be held accountable for it when it erupts.

REJECTS THE COMPROMISE PLAN

We reject the key elements of the compromise plan. It relies far too heavily on tax increases, particularly the onerous and confiscatory increase in the self-employed tax. Worse, the compromise once again delays until after the 1984 elections the real day of reckoning which is bound to come. The rhetoric used by the White House, many of the commission members, and the leading members of the House and Senate sound exactly like what former President Carter used in 1977 when he signed the legislation imposing the largest SS tax increase in history. And this compromise will have about the same effect as that.

SPECIFIC OBJECTIONS TO COMMISSION PROPOSALS

We strongly oppose these parts of the proposed compromise:

A. Tax increases

To increase an already intolerable tax burden will severely harm, if not abort, the economic recovery. Employers will either pass on the proposed tax increases to consumers in higher prices, or reduce future spendable wage increases to employees, or both. Employees will receive far less spendable or savable income.

The penalty on the self-employed is simply beyond belief. As self-employed persons, we feel as if Congress is seeking to destroy the very base of the economy. The self-employed and owners of small companies create more jobs in the economy each year than major corporations, and we do so despite incredible burdens of taxation and paperwork. Yet, in 1984, if you enact this tax, you will impose a 49.7 percent tax hike on a self-employed person making $20,000 a year. That person would pay $2,800 in SS taxes compared to a scheduled $1,870, a $930 increase in one year. The tax deduction sop will do far less to ease the pain than its supporters contend.

B. Withdrawal and forced coverage

The plan to force state government employees into Social Security is clearly unconstitutional. Congress clearly has the power to coerce non-profit organization employees into the system, but doing so is an act of political cowardice. The proposal to force only newly hired Federal workers into the system is a political cop-out.

C. Benefit taxation

On the face of it, taxing the benefits of retirees with incomes greater than $20,000 is a sly plan to soak the so-called wealthy retired. But how could anyone consider a retired individual with only a $20,000 income well-off? Far worse, according to Dr. Michael Boskin, of Stanford University, this taxation of benefits will eventually lead to taxation of almost all retirees' Social Security benefits as inflation, cost of living adjustments, liberalized earning rules, and bracket creep increase retirees' incomes. Thus, it is a devious scheme to impose a general income tax on Social Security benefits.

D. Use of general fund revenues

These proposals are dangerous precedents. For a clear picture of what would happen, consider the unconsidered, yet far worse, problems of Medicare funding.

E. Increased work incentives

Increasing the incentive to continue working from 3 percent to 8 percent starting in 1990 should actually start now, not when the Baby Boom generation retires. It cheats current workers and is a deliberate move to force today's workers to work longer and retire later.

F. Cost-of-living adjustment changes

Simply, this is too little too late.

We approve of several changes: (1) Change to calendar year for COLA adjustments, (2) Helpful increases for women, widows and widowers, divorced spouses, although these will also be more helpful in the future to men than to women, and (3) Curb on double-dipping by federal employees. Of course, we believe the curb on double-dipping should be complete.

SPECIFIC SOLUTIONS

If we must support any changes in Social Security other than its destruction and replacement with a private retirement account plan, we propose these changes to replace the Commission's:

1. *Penalize early retirement.*—We support President Reagan's original plan to penalize early retirement.

2. *Link COLA to wage increases.*—Cost of living adjustments should be linked to wage increases in one of two ways: (a) Make the COLA 80 percent of the annual wage increase, or (b) Place the COLA at 2 percent below the average wage increase.

If the average wage hike was 8 percent, the COLA would be 6 percent under 2b., or 6.4 percent under 2a. This will insure that current workers can afford to pay for benefit increases. It will also stop the elderly from continuing to suck the blood of the working class, i.e., the 40 percent increase in SS benefits compared to the drop in real family incomes since 1979.

3. *Raise retirement age.*—Raise the retirement age to 68 by the year 2030, starting now. Increase the incentives to continue working to 8 percent now and grant people over 65 who continue to work special tax exemptions so income and SS taxes do not penalize them for working. We endorse The Hon. Barber Conable's ideas in this regard.

4. *Stop increasing contribution tax base according to the CPI.*—The rapid acceleration of the Social Security "contribution" or tax base from $9,000 in 1972 to $35,700 today is killing the middle class. The contribution base should be stabilized or it should rise at 50 percent of the annual wage hike.

5. *Tighten disability and medicare rules.*—The rules governing disability and Medicare should be tightened even more; administrative law judges must be tougher in granting appeals; and the vigorous attack on fraud and waste should be strengthened.

6. *Use worst assumptions.*—Experience has proven that using the most pessimistic assumptions on financing and projected deficits would enable Congress to make more realistic plans concerning the future. The projected $5.8 trillion deficit is more realistic than the $1.6 trillion used by the commission.

7. *Reduce medicare costs.*—We endorse the President's recent proposal as a small step in the right direction. Congress must take strong action to limit the rapid rises in health care costs. Medicare's long-term deficit is also out of control and poses a far worse problem than retirement benefits.

8. *Remove from budget.*—The Social Security funds should be removed from the overall federal budget, as they were in the past, so no one can use them as political footballs over budget deficits. And the three-fund accounting structure should be abolished, except for internal purposes, because a deficit in one is used to deliberately create a sense of public panic that the system is going broke when the other "funds" are in good shape. Inter-fund borrowing is a hoax.

INEVITABLE BANKRUPTCY

Above all, Congress must recognize the inevitable bankruptcy of the Social Security system and replace it with a private retirement account plan which is the best way to guarantee a sound financial future and comfortable retirement for today's workers. Congress should appoint an impartial group to develop this alternative.

"The Complete Social Security Handbook" will be published in March by Dodd, Mead & Company in trade paperback and hard cover editions. Written in laymen's language, it is an easy-to-read, consumer's guide to the seemingly unfathomable Social Security benefit structure. It also provides many ways to help consumers plan for a comfortable retirement and explains how consumers can fight back against the SSA bureacracy and win benefits to which many consumers do not know they are entitled.

For more information, contact: Robert L. Perry, Bryce Webster, Quality of Life Publications, 505 Court Street, Suite 5K Brooklyn, NY 11231, (212) 875-3213; Kay Radtke, Director Publicity and Public Relations, Dodd, Mead & Company, 79 Madison Avenue, New York, [illegible] 10016 (212) 685-6464.

STATEMENT OF ROBERT PETERSEN, WICHITA, KANS.

Mr. Chairman: My name is Robert Petersen. I would like to thank you for this opportunity to testify before the committee on social security reform regarding the financing problems of the social security system.

FAILURE TO ADDRESS LONG-TERM OBJECTIVES

I am opposed to the National Committee's recommendations for social security reform because of its failure to address realistically the long-term financial problems of the system. The purpose of this text will be to outline a long-term plan which advocates the dismantling of the social security system.

Dissenting views of your fellow Congressman support the statement that concepts of organization belong to a world less complex than our own and that persons who have the responsibility to guide this Nation possess inadequate resources to deal effectively with the still greater explosive changes that will characterize our nation in years to come.

Congressman Bill Archer: "We have not taken advantage of this rare historic opportunity to do more toward designing greater stability. The proposals treat symptoms, not causes."

Senator William L. Armstrong: The Social Security Commission's plan for reform" . . . also avoids the permanent structural changes necessary to restore public confidence in the solvency and fairness of Social Security."

A National Government needs to be responsive to the people it serves, not responsible for them! This does not suggest that the obligation for the welfare of our elderly, that was worthily adopted by the people of our land, be capriciously abandoned and their fate left to the cynicism of youth-oriented society. No. But, it is time the myths that encourage dependency and fog the resourcefulness of that venerable population be cleared.

There is no question that a responsive government must insure the survivability and welfare of the people it serves. The old-age pension program of 1935 is indicative of this responsiveness: that the provision of services to older individuals with the greatest economic or social need be given highest priority. Congressman Bill Archer stated that "Fundamental principles inherent in the basic concept of social security have been abrogated by the Commission's recommendations." This is also my belief. Social security as it has developed and grown over the years has lost its original force and is now the victim of political anoxia.

ELIMINATION OF SOCIAL SECURITY

Statement: The social security system should be phased out by the year 2010. Current short-term reform predicts that the financial status of the OASDI program in the 1990's and early 2000's will be favorable.

The social security system does not meet originally stated objectives and subsequently has placed a substantial burden upon the present and future income-producing generations. Peter A. Morrison, a demographer with the Rand Corporation states that as long as Social Security is ". . . financed by intergenerational transfer instead of by the contributions of recipients themselves, the system will be vulnerable to demographic shifts that legislation cannot fully anticipate."

Social security is a tax and as such does not guarantee a return beyond basic need. In 1980 the percentage of elderly people below the poverty level was 15.7 percent of this only 9 percent received Social Security. By contrast, the elderly with income in the top 20 percent (income over $30,000) received approximately 30 percent of total benefits. Finally, total Social Security outlays for the 20 percent previously cited is more than the combined outlays of the major need-related welfare programs: foodstamps; AFDC; medicaid; SSI; although not funded by social security a substantial proportion of the elderly poor rely on these programs. This serves as a potent illustration of the inequitable nature of the system.

To further illustrate the lopsidedness of the social security system, Joe Frisino of the Seattle Post Intelligence provides a clear picture of this problem in which he contrasts the lifestyles of two elderly social security recipients.

Case 1. Mary McCleary is single and a stroke victim which has left her paralyzed. Ms. McCleary also suffers from congested lungs and osteoporiasis (this effectively illustrates the additional health-related problems that the elderly poor are more apt to suffer). Mary McCleary is forced to survive on $342/month; $129 of which comes from Social Security and $183 of which comes from Supplemental Security Income.

Case 2. R. Mort Frayn, a printer, former legislator, and former president of the University of Washington Board of Regents supplements his $9000/month income with a $1000/monthly Social Security check, he also receives $68/month pension for his ten years as a legislator. Mr. Frayn estimates it costs him $7500/month to operate his household including entertainment and travel.

I believe that the body of this text adequately substantiates the need for a determined re-statement of system objectives and that the implementation of a program targeting those in need and requiring a greater reliance on the resourcefulness of the people of this nation is that statement.

OUTLINE OF OBJECTIVES NATIONAL AGING POLICY

Provision 1: Mandate a savings program of 10 percent for all workers (tax exempt). The report of the Special Committee on Aging: United States Senate; Recommendation of the President's Commission ". . . to establish a mandatory universal pension system (MUPS) of all workers. The National Tax Payers Legal Fund and The Heritage Foundation advocate a greater reliance on privately offered retirement accounts.

Provision 2: Legislation of but nonmandatory retirement at age 68. To be used to establish taxing and age related guidelines. Example of which can be found in The National Commission on Social Security Reform Supplement.

Provision 3: The 100 percent funding of hospital insurance (HI) from general revenues. Fear of illness is greatest among the elderly. Hospital care continues to be one of the highest financial worries of any one group. This impacts severely on the elderly who are at greatest risk to chronic illness. The elderly also consume the largest share of health care services.

Provision 4: Supplemental income to only those who fall below a determined post-retirement income. To be funded through general revenues.

Provision 5: Development of a national aging agency. To coordinate developmental trends in aging with national policy and to implement and oversee subsequent legislation.

CONCLUSION

In conclusion, I would like to thank the Commission for the opportunity to testify on social security reform which represents a critical factor in the future of our aging population. I will be available for further questioning if the need arises.

BOSTON, MASS., *January 13, 1983.*

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR SIR: A notice of the full committee and subcommittee hearings on proposals to address the financing problems of the Social Security System has just come across my desk. The notice caused me to finally sit down and send you the enclosed by Andrew Tobias and to express my concerns about the way the Social Security problem seems to have been handled.

My view is that:

(1) Currently, there is a ratio of, I believe, 6 workers to every one recipient for Social Security. I happen to be one of the six—in my 30's and looking forward, unless something is done (or we 30 year old women get cracking and have lots of children) to the possibility of not being able to collect Social Security when the time comes. As time goes on the burden on those of us working will be incredible if one of the alternatives you consider is to increase our taxes to cover the system.

(2) Any one of the enclosed outlined solutions could spread terror in our elderly if treated in such a way—as it has been in fact. The situation seems to be a classic case of the "Emperor without his clothes", however, and the solutions Mr. Tobias outlines (and a number of economists with the National Bureau of Economic Research) seem to be the words of the little boy in the crowd. The problem is not any more complicated that the political process, and those involved in it, want to make it.

(3) Our political system affords us the unique opportunity for debate of issues. However, one of the pitfalls is our tendency to put issues on the "Political seesaw." The Social Security issue has been put there. Those seeming to be unwilling to take the "unpopular" actions needed to save the system do seesaw the issue and the press creates some of the hysteria in the reporting of this uncertainly. Clear, committed approaches, do not create confusion or hysteria. That is data based human behavior stuff.

(4) By and large Congressmen/women handle speeches and rhetoric well—it aids in getting them elected. Why not take those combined strengths and "sell" the public effectively on what is needed for the Social Security System. Of all things, dear god, to make a bi-partisan issue . . . its depressing.

Sincerely,

PAMELA D. PETRI-HUMPHREY.

Enclosure.

HOW TO FIX SOCIAL SECURITY

(By Andrew Tobias)

There's a dirty little secret about Social Security, and it isn't that the system's going broke. Everybody knows that. The secret is that there are some simple, fair and relatively painless ways to solve the problem. Almost nobody knows that, because our elected representatives—who do know it—would rather make political hay than lead the nation. "Everything has been geared to the first Tuesday of November," House Speaker Tip O'Neill candidly told a reporter this summer.

THE PROBLEM

In 1949, there were 16.5 workers paying into Social Security for every retiree or surviving spouse drawing money out. The maximum tax on wages was $30 a year.

Today, there are just 3.2 workers supporting each retiree, and the maximum annual tax—$174 as recently as 1965—has risen to $2,171. Employers pay an equal sum, which they then add to the price of their products. So we wind up paying that $2,171, too.

And it gets worse: In 30 years, there may be barely two workers to support each retiree.

In large part, the problem—if you can call it a problem—is that people live longer than they used to. In 1940, a 20-year-old woman was expected to live to be 71; now she can expect to live to 80. That's wonderful, but look what it means: Instead of collecting Social Security for six years, say, she may now collect it for 15.

Longevity was expected to increase a mere six months during the 1970s. Instead, due largely to a decline in fatal heart disease and strokes, it increased 2.8 years! This is surely no one's "fault"—but it does require adjustments to the Social Security system.

The money we pay in Social Security tax is not invested for our retirement, even if some people were gently misled into thinking so. It is paid right back out to the elderly—our parents and grandparents. The young assist the old on the assumption that their young will do likewise. It is a contract between the generations.

The idea was never that this program would provide a full and comfortable retirement—that was the responsibility of the indvidual. Social Security was designed to assure the bare essentials. Yet, in the last dozen years, the benefits a worker gets upon retirement have jumped from 34 percent to 55 percent of his prior year's wages.

So not only are there far fewer workers to support each retiree—each retiree costs more to support!

People say they could do better saving for retirement themselves than paying into Social Security. Quite true. But who, then, would pay benefits to today's senior citizens? Should they be allowed to starve? Like it or not, we are paying into the system not for our own retirement (our children will do that) but for our elders'. And at the rate things are going, the system is going to fall tens of billions of dollars short over the next few years and more than a trillion dollars short early in the next century.

THE SOLUTION

Conceptually, the situation couldn't be simpler. The Social Security system is paying out more than it's taking in. That's all. To fix it. we must either take in more (raise taxes) or pay out less (cut the growth of benefits).

Those who favor raising taxes will be delighted to know that increases are already on the way. The 13.4 percent bite we and our employers pay on wages up to $32,400 is slated to keep rising. But even with those hikes, mammoth deficits are projected. To raise taxes still further seems almost too much to bear. Instead, what most people agree must be done is to slow the growth in benefits. Not cut them, just slow their growth. These three changes would more than suffice:

(1) Raise the retirement age from 65 to 68—gradually, over the next 36 years. One month would be added to the retirement age each year. It would rise to 65-and-one-month in 1983, to 65-and-two-months in 1984, and so forth. Twelve years from now, it wouild reach 66. (Early retirement, likewise, would have risen by a full year from 62 to 63.) In 36 years, the retirement age would have climbed to 68.

Current recipients would not be affected one whit. Naturally, it would be nice if we didn't have to do something like this. It would be nice, indeed, if we could lower the retirement age. And double benefits! But we can't afford to.

Indeed, as sacrifices go, perhaps this one—raising the retirement age for today's 30-year-olds from 65 to 68—is not so great. But its impact on the system would be enormous. People would eventually be paying into the fund for three years longer and withdrawing from it three years less. This one change would go about two-thirds of the way toward solving the problem all by itself.

Yet when House Ways and Means Subcommittee Chairman J.J. Pickle was drafting such a bill, to begin phasing in about 1990. Tip O'Neill told him to stop. According to Time, O'Neill didn't want voters to think the Democrats were tinkering with Social Security.

(2) Subject benefits to federal (but not state or local) income tax.—People say, "Now, wait just a damn minute. I paid into that system for 30 years (or my spouse did)—how dare you tamper with what's rightfully mine?!"

Nonsense. In the first place, that money is gone. It went, with at least the tacit consent of us voters, to support prior generations.

But even putting that aside, today's average retiree can expect to collect something like five times what he or she paid into the system (even taking into account the interest that money would have earned). The most anyone retiring in 1982 could possible have paid into the system since 1937 is $16,937. On average, that will be paid back in just a year or two. The next 20 or 30 years are gravy.

If benefits were taxed, many recipients would have no tax due. Only those with outside income would pay any tax. And why not? Today's 20- and 30-year-olds can be expected to help the elderly who need help. But why should they be taxed to support the elderly who don't need help? If Social Security benefits were taxable, then those with less need would simply "return" some of the money by paying taxes on it. Crediting that money to Social Security would reduce the projected shortfalls dramatically.

Consider a widow whose husband contributed a total of $2086 to the system over his lifetime. She has been receiving benefits—currently, $5,520 a year—for 25 years. She also has a trust fund and investments that pay her $16,000 a year. She is in no sense rich; but given the nation's economic condition, would it be cruel or unfair to tax her Social Security check? I hope not. She's my grandmother.

Still, to ease its impact, any such change could be applied only to future recipients and to current recipients with incomes in excess of, say, $30,000 a year.

(3) Suspend the automatic cost-of-living adjustment for one year (and one year only). Social Security recipients saw their untaxed benefits rise 40 percent over the last three years, while the wages of workers taxed to pay those benefits rose just 30 percent. A one-year moratorium on the cost-of-living adjustment would have only a small effect on current recipients but would do wonders for the financial health of the system.

Other steps could be taken as well. One would be to return to the fold those who have been exempted from participating in Social Security (government employees, for the most part—funny how well they manage to take care of themselves). But the three proposals above would solve the problem. Indeed, they would more than do the trick, confirms Robert J. Myers, 70, executive director of the National Commission on Social Security Reform (due to make its report to the President by the end of the year).

Yet, so vocal have our representatives been in politicizing the problem rather than dealing with it that two-thirds of Americans under 45 don't believe Social Security will exist when they retire. There's no reason why it shouldn't; benefits might just start a little later. (In the meantime, believers and nonbelievers alike would be smart to join the tens of millions who already have set up Individual Retirement Accounts.)

Putting Social Security on firm ground would do something even more important. It would signal the financial markets that ours is a country that can cope with its future. Right now, there is considerable uncertainty among investors here and abroad of our ability to do so. (Or else why would long-term bonds that promise 12 or 14 percent interest go beggin?) Uncertainty over the future, together with gargantuan projected deficits, translate into murderously high interest rates. And murderously high interest rates are killing the country.

Editorializing The Wall Street Journal: "The elderly are no different from anyone else in this democracy. They are willing to be fair if the issues are explained honestly. The longer the necessary Social Security decisions are postponed, the worse the problems will become and the more unpalatable the remedies. Everyone, young and old, understands this, except, of course, members of Congress."

If you want to have a real impact, rip out this article and send it to one of your elected representatives. Quick.

PROFIT SHARING COUNCIL OF AMERICA,
Chicago, Ill., February 17, 1983.

Re Report of the National Commission on Social Security Reform—Taxation of Contributions to Section 401(k) Plans.

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives, Washington, D.C.
(Attn: John J. Salmon, Chief Counsel).

GENTLEMEN: The purpose of this letter is to submit the comments of the Profit Sharing Council of America (the "Council") with respect to the proposal in the Report of the National Commission on Social Security Reform (the "Report") and in S. 1 to subject contributions to plans that meet the requirements of Section 401(k) of the Internal Revenue Code (the "Code") to taxes under the Old-Age, Survivors, and Disability Insurance Programs and the Hospital Insurance Program ("OASDI-HI taxes").

The Council is a nonprofit association of approximately 1,400 employers that maintain profit sharing plans. Such plans cover about 1,750,000 employees. Council members are located throughout the United States and are engaged in practically all areas of economic activity. Member companies range in size from Fortune 500 size companies down to small family operations. Council members believe that profit sharing provides retirement security, and creates an incentive for increased productivity, capital formation and profits.

The Council defines "profit sharing" in its Constitution and Bylaws as any procedure under which an employer pays or makes available to employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, current or deferred sums based on the profits of the business. Under a deferred profit sharing plan, the employer contributions are allocated to an employee's account, together with the employee's own contributions, if any, and such sums are then invested for the benefit of the employee and subject to investment risk. At retirement, all of the employer contributions, employee contributions, gains or losses, and the reinvested earnings are made available to the employee for this retirement benefit.

The Council estimates that there are approximately 17 million employee participants in over 315,000 deferred profit sharing plans that meet the requirements for qualification under Section 401(a) of the Code. Employee profit sharing trusts now hold over $75 billion in invested assets on behalf of such participants.

In Paragraph 17 of Chapter 2 of the Report, it is recommended that salary reduction contributions to plans covered under Section 401(k) of the Code be subjected to OASDI-HI taxes at the time such contributions are made. Section 305 of Senator Dole's bill to implement the Commission's recommendations, S.1, apparently would subject all contributions to a Section 401(k) plan with respect to which an employee has a cash or deferred election to OASDI-HI taxes, although the title of Section 305 and Senator Dole's remarks in the Congressional Record (129 Cong. Rec. 897, daily ed. Jan. 26, 1983) refer only to salary reduction plans.

The Council respectfully submits that contributions under a cash or deferred plan should continue to be exempt from OASDI-HI taxes. For convenience, such plans hereinafter are referred to as "cash or deferred" plans.

DESCRIPTION OF CASH OR DEFERRED PLANS

A cash or deferred plan is first and foremost a profit sharing plan. A profit sharing plan may provide for setting aside a specified portion of profits, such as 10 percent of pre-tax profits, or may provide for a discretionary determination by the employer's board of directors in each year of the amount of profits that will be contributed to the plan. In either event, a contribution will be made only if, in fact, the employer has a "profit" within the plan definition of that term.

Under a typical cash or deferred profit sharing arrangement, the plan provides that at some point prior to the end of each year and before the amount, if any, of employer profits and contributions to the plan become determinable (for example, in November under a calendar year plan), an employee has the option of irrevocably electing to receive a percentage of any employer contribution in cash, instead of having the entire amount contributed by the employer to the trust under the plan. Any portion of the profit sharing contribution which the employee receives in cash is treated as taxable income for the year of receipt and is subject to OASDI-HI taxation. In effect, the employee receives an end-of-the-year cash profit sharing bonus. The portion paid to the trust is an employer contribution like any other employer funds contributed to a qualified profit sharing plan.

Long before the enactment of Section 401(k) of the Code, the Internal Revenue Service held that cash or deferred plans could qualify under Section 401(a) of the Code and spelled out the rules for qualification of such plans, Rev. Rul. 56-497, 1956-2 C.B. 284. Section 401(k) of the Code merely confirms the qualified status of cash or deferred plans and changes the rules somewhat.

The proposed regulations under Section 401(k) of the Code, 44 FR 55544, Nov. 10, 1981, would also include salary reduction plans as plans that may qualify under Section 401(k).

A salary reduction plan differs from a cash or deferred profit sharing plan in that under a salary reduction plan, the employee directs that a portion of his salary be contributed to a deferred plan in lieu of receiving such amount as regular salary. The employer may or may not put additional amounts in the trust. To the extent that the rules of Section 401(k) are met, the employee does not have to include the amounts contributed to the trust in his income for the year contributed.

Thus, in the salary reduction situation, an employee in effect surrenders what is already his. In the cash or deferred situation, the employee makes an election to have a portion of his allocable profit sharing amount distributed to him rather than paid entirely to the trust. The employee has no prior right to the cash or deferred bonus and, in fact, may not be entitled to any bonus at all if there are no profits.

It should be emphasized that shared profits under a cash or deferred plan, by definition, begin as the "employer's" money. Profits, if any, are the financial results of the employer's operation, not funds of the employee to be deferred. Indeed, the employee's compensation is a cost that is deducted from the profits to be shared. The incentive feature that is crucial to cash or deferred profit sharing derives from the very fact that the employees do not give up what they already have earned; instead, they work harder to produce a larger profit in which they may share.

POLICY CONSIDERATIONS

The Commission's Report and the section-by-section analysis of S.1 in the Congressional Record state that the proposal with respect to salary reduction plans will not significantly increase current OASDI-HI revenues. The proposal is being offered because of possible future decreases in OASDI-HI revenues. Cash or deferred plans, as stated above, do not result in the reduction of an employee's take-home salary, but instead provide for sharing yearly profits. Accordingly, the Council believes that existing cash or deferred plans do not, and new cash or deferred plans will not, significantly deplete the revenue of the Social Security system. Further, there is no greater reason to tax employer contributions under a cash or deferred plan than there is to tax employer contributions to any qualified profit sharing or pension plan.

The benefit of a cash or deferred plan to rank and file employees should not be overlooked. The Council believes that cash or deferred plans provide a particular incentive for employees to save for retirement. A rank and file employee may find it difficult to give up a portion of each paycheck in advance. However, under a cash or deferred plan he does not have to sacrifice any take-home pay in order to defer for retirement. Plans that meet the qualification rules of Section 401(a) of the Code historically have been granted favorable income tax and OASDI-HI treatment because of the policy objective of encouraging savings for retirement. The Council believes that cash or deferred plans indeed encourage such savings for all employees.

SUMMARY

The Council maintains that providing retirement benefits in the private sector by encouraging employers to share profits with employees for both current use and future retirement is of more benefit than any additional revenue gain to the Social Security system that would be achieved by subjecting the deferred portion of an employee's cash or deferred profit sharing plan to OASDI-HI taxes. To the extent qualified cash or deferred profit sharing plans can be encouraged, such action inevitably will result in greater productivity and greater planning for retirement by the private sector. This will provide increased retirement security for employees and act to ease some of the pressures on the Social Security system.

Respectfully submitted,

WALTER HOLAN, *President.*

PUBLIC SCHOOL TEACHERS' PENSION AND RETIREMENT FUND OF CHICAGO,
Chicago, Ill., January 21, 1983.

Representative DANIEL ROSTENKOWSKI,
House of Representatives, Ways and Means Committee,
House Office Building, Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: On behalf of 28,000 contributors and 9,000 annuitants, the trustees of the Public School Teachers' Pension and Retirement Fund of Chicago have given deep consideration to current Social Security issues, and wish to express their views to the House Ways and Means Committee for inclusion in upcoming Social Security hearings.

It is undeniable that Social Security is facing severe financial problems. However, it is unfair and confiscatory to look to public employees pension plans as a source of new revenue. In accordance with these sentiments, the trustees passed the attached resolution encouraging the abolition of the Social Security/Government Pension Offset measure. Further, the trustees endorse the attached resolution of the National Conference on Public Employee Retirement Systems opposing mandatory Social Security coverage for public employees. These resolutions are hereby submitted as written testimony for the upcoming Social Security Subcommittee hearings.

In closing, it is important to note this Fund was established in 1895 to provide comprehensive retirement income security for schoolteachers. In contrast, Social Security was created in the 1930's to provide a retirement supplement for private workers. The two systems have historically been mutually exclusive—in objectives, in funding, and in legislative authority. Serious questions of constitutionally, propriety, and administration would be raised by any action to override or replicate public employees' current retirement plans.

Sincerely,

JAMES F. WARD,
Executive Director.

Enclosure.

RESOLUTION FAVORING REPEAL OF THE SOCIAL SECURITY OFFSET PROVISION

At this September 17, 1981 Board Meeting, the Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago ratified the following resolution, expressing their position in favor of the repeal of the offset provision of current Social Security law.

Whereas, Public Law 95-216 of 1977 established a provision whereby the Social Security survivor's benefit for a beneficiary whose benefit begins after December 1, 1982 shall be offset by the amount of benefits drawn from a public retirement system on behalf of the beneficiary, where public employment of the beneficiary was not covered by Social Security; and

Whereas, This offset provision is discriminatory to recipients under public retirement systems because it does not apply to recipients under private retirement systems; and

Whereas, There is no legal or actuarial justification for offsetting benefits in one system based upon eligibility in another system provided they both are earned and funded in accordance with the legal requirements of each system; now, therefore be it

Resolved, That the Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago does hereby express its strong position in favor of repeal of the Social Security offset provision; and, be it further

Resolved, In recognition that legislation to repeal the offset provision may not be accomplished prior to the effective date, December 1, 1982, we strongly urge the passage of a five-year extension of the effective date, until November 30, 1987, such as proposed under H.R. 7313 by Congressman Ronald M. Mottl, Ohio, and supported by Congressman J. J. Pickle, Texas, Chairman, Committee on Social Security, Ways and Means Committee; and be it further

Resolved, That a copy of this resolution be forwarded to selected members of the Congress, to the Secretary of Health and Human Services, and to the Director of the

Social Security Department, and further, that a personal letter be sent to Congressmen Mottl and Pickle expressing appreciation for their interest and support.

Ratified by the board of trustees: Judy Cheris, Edwin Claudio, John D. Foster, Mae M. Hunter, Martha J. Jantho, Marshall F. Knox, Albert Korach, Margaret A. Olson, and Robert T. Wilkie, September 17, 1981.

A RESOLUTION REGARDING MANDATORY SOCIAL SECURITY COVERAGE

Whereas, In 1950 the Social Security Act was amended extending Social Security coverage to public employees not included in a state or local public retirement system, and

Whereas, Eight states, in order to qualify, repealed existing retirement statutes and placed public employees under Social Security, and

Whereas, In 1954 and 1956 further amendments provided voluntary Social Security coverage for public employees based on referenda conducted in the several states on a unit or divisional basis, and

Whereas, Under these amendments Social Security coverage was adopted by many states for public employees, and

Whereas, A number of states, relying on the historical voluntary provisions in the Social Security Act as regards public employees has chosen to provide excellent programs of retirement and related benefits for public employees utilizing state and local resources, and

Whereas, Mandated Social Security coverage in addition to these programs create a cost liability exceeding the resources of employees and taxpayers, resulting in drastic restructuring or abandonment of many excellent programs, and

Whereas, There are serious constitutional questions raised by mandatory Social Security coverage for employees of governmental units, now therefore be it

Resolved, That the National Conference on Public Employee Retirement Systems opposes extension of Social Security coverage to public employees by mandate of the Congress or through any method other than voluntary coverage based on referenda conducted as provided in present law, and be it finally

Resolved, That since 1954 Social Security coverage for public employees has been based on popular referenda, therefore the National Conference on Public Employee Retirement Systems opposes the present provisions of the Social Security Act permitting withdrawal from coverage based on the unilateral decision of employers and urges the adoption of amendments permitting such withdrawal based only on referenda by employees, such provisions being in keeping with the voluntary approach historically applicable to publc employees.

This is a true copy of a resolution adopted by the 39th Annual Meeting of the National Conference on Public Employee Retirement Systems in Florida on April 17, 1980.

VICTOR A. MILLER, *Secretary*.

This resolution is endorsed by the Board of Trustees of the Public School Teachers' Pension & Retirement Fund of Chicago.

BLACKWELL, OKLA., *January 12, 1983*.

Mr. Greenspan, Chairman and members, Presidents committee on Social Security Reform Plans: I would like to make the following suggestions for helping to solve the Social Security problems:

To begin, recipients having income of $30,000.00 in excess of their Social Security benefits for the year would have their benefits reduced by one-half, benefits to be reduced to zero should these recipients have income of over $50,000.00 in excess of their Social Security benefits for the year. Application for reinstatement of benefits would be assured should their incomes drop below the above applicable incomes.

In addition an alternative suggestion would be that these recipients could cancel their social security payments to them if they feel that the future indicates to them that their incomes will be sufficient to not place them in need of social security. This brings up the fact that they have contributed to the plan, with this in mind, I suggest a tax credit based on their contributions as recorded in Baltimore, using 1/15 of the last 15 years of the total accumulated as a maximum credit per year. Those having already received social security payments for one year or more would have to use the 1/15 basis for the balance of 15 years, when in all cases the credit would cease. If recipients or potential recipients wish to retain the benefits of Medicare, then the income tax credit should be cut by 50 percent and Medicare would be for life. These options would be available to all new Social Security applicants who expect to have incomes sufficient to place them outside the need for Social Security.

Social Security as I am inclined to define it, and as I believe president Roosevelt intended it; A program designed to aid and contribute to the income of those citizens of the U.S. who are qualified to receive benefits and most of all that they can feel the necessary benefits they receive are not a handout, but are a guarantee toward their Social Security as a U.S. Citizen. I might emphasize that this definition applies only to those citizens coming under the income heading of less than $50,000.00 a year and therefore qualifying for the peace of mind of being Socially Secure in receiving Social Security benefits. The dream of all the American workers in the lower to middle income classes especially; is to some day have that check coming in each month that shows they have worked and earned their Social Independence.

Also please bear in mind that enacting a solution bearing a resemblance to what I have suggested would be getting at the very most expensive benefits paid out of the Social Security program and would not be interfering with the Social Security of those already secure.

Heaven forbid that greed will be the downfall of our Social Security Program.

Thank you for your time and efforts, in all sincerity.

Your citizen brother,

THURMAN RADCLIFF.

STATEMENT OF RETIREMENT FEDERATION OF CIVIL SERVICE EMPLOYEES, PORTSMOUTH, VA.

Please accept the following as written testimony before hearings of the Ways and Means Committee on the financing of the Social Security system.

We consider that the National Commission on Social Security Reform has failed to provide any long-term solution to the Social Security problem, and the Reform Commission has done little to assist in the short-range solutions for the Social Security System's problems.

An example of what we mean is their attempt to require all new Civil Service employees to come under the Social Security System. The statements of Mr. Robert J. Myers, Executive Director of The National Commission on Social Security Reform and recently Deputy Commissioner of the Social Security System, stated this would give sizable cash-flow income to the Social Security program.

Mr. Myers is in error. New federal employees for the most part come from the Social Security rolls, therefore, mandating that they be placed on Social Security doesn't increase the cash-flow one iota, because they are already contributing to Social Security.

With the federal government cutting back employment at all levels it is doubtful if the federal employment rolls will increase by any sizable number to help the Social Security System in the next few years.

The proposed action will, however, cut new money off to the Civil Service retirement Fund which will lead to that viable fund's demise in future years. Why destroy a workable and viable Civil Service Retirement System when the action proposed is so ineffectual?

The National Commission on Social Security Reform has not come up with any long-term financial solution to the Social Security problems.

For almost 40 years industry and business has lobbied against raising the taxes on Social Security, that employees and employer pay into the program. Industry and business has been successful in keeping these taxes down as witnessed by the Social Security System's present financial problems.

The Civil Service Retirement System went to a compulsary 7 percent contribution of total pay in 1970, while Social Security comparable tax rate for 1970 was 4.1 percent. Where would the Social Security Program be today if they had received this additional dollars of 2.9 percent difference for the last 13 years?

Let us remember that we also have a 5 trillion dollar plus unfunded liability of the Social Security System (that's $5,000,000,000,000.00, plus). Why not fund some of this liability to get the Social Security System out of the hole and back in a sound financial position?

It seems that nobody wants to use General Revenues to help out on the problem, so then we might shift the burden to the group that helped put us in trouble with their effective lobbying, industry and business.

Congress recently came up with a gasoline tax of 5 cents to repair roads, bridges and provide jobs. Perhaps, some temporary tax on industry and business would work to straighten out Social Security before the turn of the century. May we suggest one of, or a combination of the following: (1) A tax on Corporate gross sales; (2)

A sur-tax on Corporate income; (3) An excess profit tax on income profit greater than 15 percent; (4) An import tax on all products that have displaced American's jobs; (5) A sales tax on all imported products; (6) A 1 percent National Sales tax (for Social Security only).

We feel that this type approach if sold as a temporary tax until the Social Security System is out of the depth of it's financial problem, will be accepted with the least pain for all.

To briefly recap, we believe that the Social Security taxes should be increased as recommended by the National Commission until they reach 8.3 percent of payroll (total salary) as they are for the Civil Service Retirement Program. We also believe that a special temporary tax is needed to provide for the $200 billion short-fall now predicted by 1990. We further believe that any temporary tax (like the 6 listed above) should not be repealed until the effects of the baby-boom of the 1940's and 1950's is covered in their retirement years.

Now we address another part of the problem that is far-reaching into all areas of our economy. That area is inflation.

The key contributor to raising inflation is rising prices. In January 1976, George Meany, then President of AFL–CIO, told President Carter that labor would accept wage controls, if he (Carter) would institute price controls. President Carter said he would seek a system of voluntary controls with Industry-Business and Labor.

As we all know, voluntary controls didn't work and prices have continued upward ever since. We have had plenty of warning as to what was happening. The Consumer Price Index (CPI) was a constant reminder as it has climbed upwards. Carter did nothing and Reagan's method has not been successful. In fact, there has been no legislation of any kind, except the limited excess profit's tax on gasoline. Congress has failed to face the real problem of higher prices.

Now we have a real mess on our hands: (a) Unemployment at 10.8 percent or almost 15 million people out of work, if you count those that have given up looking for work; (b) G.N.P. is down; (c) Productivity is also down; (d) Farm income at its lowest level in a decade; (e) Business failures at an all-time high; (f) Production only at 67 percent of capacity.

All of the above must be turned around. We can't wait until 1984. We've got to start now. Let us point out here just how much out-of-hand our thinking (priorities) in Washington D.C. has gotten.

Defections from the Social Security System has been high; 1,000,000 people plus in 1982 (55,000 in Los Angeles County alone); 160,000 people have given the required two year notice for 1983–84.

That's 260,000 people in State and Local governments out of 116 million working people (116,000,000 people) or two-tenths of 1 percent (.0022).

Robert J. Myers, a consistant advocate of putting Federal employees on Social Security seem to be trying to off-set this exodus of State, Local and non-profit organization workers with a few thousand new Federal employees now on Social Security (which means no increase in the totals) while others are exercising their legal right to witdraw from Social Security because of their lack of confidence in the system. The real way to help this defection problem is to give the American people confidence in the Social Security System again by implementing the proposed long-range changes described above.

Another big quick step to help the exodus conditions would be to get the 15 million people out of work back to work and paying into Social Security.

There are only 2.8 million Federal employees (in total) and 15 million unemployed in this country. There are over 5 times as many unemployed workers as compared to the total number Federal employees. To get our priorities (thinking) back on track we need to reduce the unemployed drastically—NOW—and provide new revenues to the system by funding some of the unfunded liability of the Social Security System.

Some of the other suggested reforms of the National Commission are really only nuisances and not real desirable reforms, they are:

1. Delay of the July COLA. (Penalize the retired only).
2. Income tax of social security. (You can't explain it after 40 years of no tax to 36 million recipients).
3. Ban withdrawal of state, local governments and non-profit institutions. (Very questionable under Constitutional Law).
4. Change the retirement age. (If reformed properly it won't be necessary).

We urge the Ways and Means Committee of "Take the Bull by the horns", and solve this dilemma with long-range workable solutions and without interrupting or destroying the Civil Service Retirement Program. Remember, Ways & Means has the power to tax. We hope and pray you will accept our suggestions in a sincere a manner as they are offered.

We further urge you to impress upon your colleagues in the Congress the need to get the 15 million people now out of work, back paying into Social Security with their employers. Remember, runaway prices have and now are at the root of most of our economic problems today. Free unrestraint of the economy without applied moral turpitude can only lead to total economic disaster.

Respectfully submitted.

JAMES H. HOOKER,
National President.
PAT CLARK,
National Secretary.
PAUL KUBE,
National Vice President.
ROBERT CAMP,
National Treasurer.
J. M. PRUDEN,
Sergeant-At-Arms.

STATEMENT OF FRANCIS X. DOYLE, LEGISLATIVE ADVOCATE, SMALL BUSINESS SERVICE BUREAU, INC.

Small Business Service Bureau, Inc. (SBSB) is a national organization for small business with over 35,000 members. SBSB provides small business and new business start-ups with legislative advocacy, management assistance, and other money saving benefits.

The Small Business Service Bureau, Inc., is concerned about one critical issue at hand the proposed changes in the social security system, which will have a drastic effect on small business and especially the self-employed; 56 percent of our members are sole proprietorship and 7 percent are partnerships. Therefore, 63 percent of our members are subject to the self-employed social security tax.

It is strikingly clear that a sharp increase such as in the self-employment tax, (increasing from 9.35 to 13.4 percent) will have an adverse effect on the self-employed of the Nation. As one of our manufacturers said: "An increase like that of the self-employment tax would make me another bankruptcy statistic." A recent telephone survey of 500 SBSB members revealed that over 90 percent found the rise in the self-employment Social Security tax to be unjustified and discriminatory.

How does the Government expect the economy to stabilize while it is burdening America's backbone, the small business?

As we stated earlier the self-employment tax, as proposed, will be increasing from 9.35 to 13.4 percent in 1984. This is an increase of 43 percent, whereas the employee-employer payroll tax would be increasing from 6.7 to 7 percent in 1984.

This is an incremental increase of 4.5 percent. In comparison, the self-employment tax will be increasing by eleven (11) times more than the payroll tax. Why does the self-employed person bear the discrimination of such an increase? The self-employed would be expected to pay up to 50 percent more in increased FICA taxes than an individual taxpayer or a corporate taxpayer.

Once again small business will have to carry the burden of fulfilling the Government's tax needs. As one of our retail members stated: "Small Business gets hit with every tax. I'm sick and tired of taking the brunt of the Government's mistakes!" From 1970 to 1981 the real pay of the working men and women fell while Social Security benefits went up about 50 percent faster than the cost of living. From 1970 to 1981, pretax wages increased 122 percent; the Consumer Price Index rose 136 percent; social security benefits rose 205 percent.

As early as 1979, Congressman J.J. Pickle, Senator Gaylord Nelson, and our Small Business Bulletin issued a ballot for our members to voice their opinion on the social security system. Over 64 percent of our members use social security as retirement plans in their business; 78 percent also said that all working persons, including Government employees should participate in the social security system.

If this proposal of the self-employment tax goes into effect, the self-employed individual will be expected to pay an additional annual cost of $236 dollars. There are 12,701,597 (1980, IRS) self-employed individuals in the United States. In 1980, the Government raised $5.7 billion in revenues for social security from the self-employed. Since 1980, the amount of revenue raised for social security from the self-employment has increased a total of $1.8 billion, $6.5 billion in 1981 and $7.5 billion in 1982. The Government expects to raise an additional $3 billion in revenue for each year social security from the self-employed, a total of $10.5 billion for the year 1984.

Small business contribution to the gross national product (GNP) is 38 percent. The self-employed individual contributes 19 percent of the GNP. Instituting a self-employment tax will have a devastating effect on the small business share of future years.

RECOMMENDATION

Restore (and increase) the self-employed social security tax to the employee plus 50 percent level, over a 3-year period.

This increase would mean the following:

Year	Rate (percent)	Increase (percent)	Revenue increase (millions)
1984	9.8	4.8	360
1985	10.20	4.0	660
1986	10.725	5.14	745.5
1987	10.725	....	745.5
1988	10.725	....	745.5
1989	10.725	....	745.5

Total increased revenue from self-employed tax: $4,002,000,000.

SUMMARY

As concerned members of the business community, those small businesses surveyed supported the overall need to save the Social Security system. Each realized the gravity of the situation and accepted the responsibility of the continuation of supporting Social Security.

Every individual in the country will bear the added burden of supplying an extra $168 Billion in revenues. What cannot be accepted as fair or equitable, is a disproportionate increase in one group's tax burden. We urge the Congress to realign the proposed tax increases so that the self-employed tax will go up, but not any higher than the payroll tax increase itself.

Traditionally, the self-employed pay one and one-half times the employee tax, because they cannot deduct FICA as a business expense. To increase the tax to double the individual rate is to tax one person twice and to thus discriminate against the group.

UPPER ARLINGTON, OHIO, *January 15, 1983.*

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
U.S. House of Representatives, Washington, D.C.

DEAR MR. ROSTENKOWSKI: In anticipation of the oncoming consideration of Social Security legislation by your Ways and Means Committee, I am enclosing a copy of a letter, written last summer to all members of the National Commission on Social Security Reform, urging their consideration of the need for basically amending the Earnings Test law.

As members of that Commission, Senators Dole and Armstrong received my letter; and by copy of this letter I am likewise providing a copy to Representative J. J. Pickle, Chairman of the Social Security sub-committee.

A number of the members of the Commission on Social Security Reform acknowledged my letter, including Messrs. Dole and Pepper. Of the presidential appointees to the Commission, Mr. Beck—Chairman of Prudential Bache—evidenced considerable interest in the issue of the Earnings Test laws inequities; and in the several suggestions I made of amendments which might relieve such inequities at a minimal cost. (Mr. Beck's advisor on Social Security is James R. Swenson, Vice President—Associate Actuary . . . . with whom I corresponded on these matters.)

To conserve your time I am summarizing in the following portions of this letter the principal points raised with respect to the Earnings Test law in my general letter to the Commission members. Also, I am revising certain of my original recommendations to reflect the changes in my thinking . . . . after securing the comments from various members of the Commission.

1

The Earnings Test law, because of it's "denial of Benefits" penalty being applicable solely to "working income", imposes an intollerable financial hardship upon those "senior citizens" under age 70 who do not recieve a pension (from their former employer); and thus must seek and hold some type of full-time job as a matter of economic survival!

My concern in urging changes in the Earnings Test law area directed solely to relieving the plight of this single class of "senior citizen".

2

The Earnings Test law discriminates against that described class of "senior citizen" (ie. "those persons who do not have a pension at age 65 and who must continue in some form of full-time work to survive financially") in that the law's earnings restrictions' apply only to "working income" earned in employment or self-employment . . . prior to reaching age 70!

All other forms of income, regardless of the amount, are excluded in calculating "excess earnings" and in applying the "denial of benefits" penalty!

Pension income is exempt: A person can receive up to the legal limit of $136,452 in annual pension . . . yet still be entitled to receive his/her full Social Security benefits tax-free!

Investment income is exempt: A person can receive in annual income from interest, dividends, capital gains, etc. $100,000-$200,000-$500,000—any amount . . . yet still receive his/her full Social Security benefits!

Deferred compensation is exempt Etc.

It is argued, and properly so, that even though persons with substantial annual income from pensions and investments have no need for their Social Security benefits they have earned and paid for the benefits during their pre-retirement years—thus they have the right to receive the benefits regardless of "need"!

The class of "senior citizen" I speak for (in my complaint) also have earned and paid for their Social Security benefits in their "pre-65" years; but are unable to retire because they have no pension and/or investment income!

Because such persons need the money to survive—if and while able they must keep working full-time . . . to replace the pension income, which they don't have, with the maximum "working income" they can earn!

Because of that they lose their right (which all others have) to receive the Social Security benefits they too have earned and paid for . . . and still are paying for (as long as they work)!

The 1981 Economic Recovery Tax Act eliminated the "tax rate" differential between "earned" and "unearned" income!

The Age Discrimination Act makes it illegal for an employer to discriminate against an employee, prior to age 70, for reasons of age!

Yet the Earnings Test law differentiates between "earned" and "unearned" income; and discriminates by reason of age (applies only to age 70)!

3

The Earnings Test law states: "A beneficiary, age 65-under 70, who works will be permitted in 1983 to earn $6,600 yearly without losing any of his/her Social Security benefits. If yearly earnings from work exceed $6,600—$1.00 of benefits will be withheld for each $2.00 of earnings over $6,600."

Inasmuch as the beneficiary is clearly entitled to receive his/her entire benefits if he/she does not work; and is denied full benefits only if "working income" exceeds $6,600 yearly . . . the "denial of benefits" penalty of Earnings Test law constitutes a Federal tax imposed upon working income.

4

The "denial of benefits" penalty relates non taxable benefits to fully taxable earned income.

The true penalty accessed is against after-tax earned income.

Taxes withheld	Percent	$2 earned
FICA (Social Security) employee tax	6.7	$0.134
State and local taxes (estimated)	4.3	.086
Federal income tax (Married, separate filing, standard deduction	19.0	.38
Total	30.0	.60
After-tax earnings		1.40

"For each $1.40 of "excess" after-tax earnings, $1 of benefits will be withheld."

5

Benefits withheld constitue a Federal tax on working income (No. 3 above.)

6

The taxes levied under the Earnings Test law upon the "working income" exceeding $6,600 yearly . . . earned by a "senior citizen", under age 70, working at a full-time job in order to survive financially—to replace a pension he/she does not have . . . constitute

80 percent of income earned		80 cents of each $1
Denial of benefits	50	$0.50
FICA and income taxes	30	.30
Total	80	.80
The worker is permitted to retain of each $1 earned		.20

7

In periodically raising the amount of earnings permitted under the Earnings Test law without forfeiture of benefits (Annual Exempt Amount), Congress arguably presumed that the majority of beneficiaries were receiving both pension and Social Security Benefits.

Admittedly the $6,600 "exempt amount" is adequate to provide a supplemental income (to pension and Social Security) from a part-time job; and realistically is on the high-side of average pay for part-time work over a years period.

However, the $6,000 "exempt amount" is inadequate to cover the yearly earnings from a full-time job—which "senior citizens", lacking a pension, frequently must 'hold' to survive financially. (Yearly earnings from a full-time job at the minimum wage exceed the $6,600 "exempt amount".)

A "senior citizen", under 70, forced to work full-time to supplement an inadequate Social Security benefit—with no pension income—is placed in the untenable position of literally being "taxed to death" once his/her "working income" before-tax reaches $6,600 yearly . . . the Annual Exempt Amount!

To try to offset the lack of a pension by working full-time is an impossibility!

To 'match' a modest $200 monthly pension requires an additional "working income" of $10,000 annually. (Pension is subject to Federal Income Tax; but not to FICA tax or Earnings Test penalty.)

Standing to gain in income only twenty cents of each dollar of "working income" earned over $6,600 yearly, the "senior citizen", under 70, because of the Earnings Test law is relegated to the position of having his total income limited to Social Security Benefits plus $6,600 exempt earnings.

The "costs of working " (Transportation-Lunches-Clothes-etc.) will consume the majority of the 20 percent of "working Income" he/she is permitted to retain!

8

The maximum marginal tax rate under the 1981 Tax Act is: 50 Percent on both Earned and Unearned Income. 20 percent on Long-Term Capital Gains.

The minimum total tax rate on excess "working income" of "senior citizens", under 70, under the Earnings Test law is 75 Percent[1] on over-$6,600.

Is that fair?

9

The remedy which I am proposing for the consideration of the House Ways and Means Committee/of the Congress/is addressed specifically to rectifying the inequities of the Earnings Test law . . . being imposed upon the one class of Social Security beneficiary I have described herein (i.e. "the 'senior citizen', under age 70, lacking a pension and working full-time in order to survive economically".)

With that objective in mind, I recommend that the earnings Test law be amended as follows:

(a) That the Annual Exempt Amount (of "working income" permitted without forfeiture of benefits) be raised to $15,000 yearly.

(b) That the "denial of benefits" penalty assessed against "working income" exceeding $15,000 yearly be revised to: "$1 of benefits withheld for each $1 of earnings over $15,000 yearly."

Arguably the $15,000 Annual Exempt Amount will fully satisfy my complaint that a "senior citizen", under 70, lacking a pension is under current law totally incapable of replacing the pension income with "working income" earned in a full-time job . . . because of the fact that "pension income" is not subject to the Earnings Test law.

The proposal that the "denial of benefits" penalty (on "working income" exceeding $15,000) be revised to a "Dollar for Dollar" formula is made primarily because of financial considerations . . . to restrict the overall cost increase to an absolute minimal. Generally—the payment of benefits will phase-out at about the same level under both the Amended and Current law(s).

I would add, however, that it is reasonable to believe that "working income" exceeding $15,000 yearly no longer should be considered as essential for financial survival.

10

Should the above recommendation(s) not be acceptable—a less satisfactory alternative . . . which I would consider the least Congress should do towards remedying the inequities described . . . would be amending the "Denial of benefits" penalty to: "$1 of benefits withheld for each $3 of earnings over $6,600 yearly."

$3 of before-tax earnings = $2 of after-tax income.

Thus the "penalty" would now relate—Non-taxable benefits to after-tax earnings.

IN CLOSING

I have now been pursuing the issue of the Earnings Test law for eight years, dating back to 1975. During those years I have observed on numerous occasions respected members of Congress, as well as President Reagan, publicly proposing that the Earnings Test law should be repealed . . . because it is unfair, discriminatory, and counter-productive.

On each such occasion Congress has failed to formally consider the recommendation. Although never publicly expressing it's reason for thus retaining the Earnings Test, it would appear that most members shared the belief that the repeal of the law would primarily benefit the higher income group of business owners/executives and professionals who continue to actively work into retirement years by choice!

For the reasons I have endeavored to explain in this letter, the failure of Congress to consider either the repeal, or substantially amending, the Earnings Test law has had devastating effect upon that class of "senior citizen," under 70, with no pension; and thus forced into full-time work during retirement years as a matter of financial survival.

This past Wednesday, January 12, the ABC Network News (6:30) devoted one segment (cast in Chicago) to presenting the desperate financial plight of "senior citizens" whose only source of income is inadequate Social Security benefits—on which they cannot survive . . . describing the dire necessity of such "elderly poor" finding a full-time job if they are to avoid economic ruin!

Exactly the story I have endeavored to explain in this letter . . . with the exception that the ABC telecast did not tell of the "penalty for working" which will be imposed upon those persons successful in finding work—and earning in excess of $6,600!

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[1] 80 percent incl. State and Local Taxes.

As I bring this letter to a "close," I cannot help but wonder whether you, Representative Pickle, and other members of the Ways and Means Committee truly have been aware of the onerous consequences of the "denial of benefit" penalty . . . that it results, as I have shown, in depriving the individual of 80 percent of the gain realized from working full-time . . . permitting him to increase his total income only to the extent of 20 percent of his earnings!

Be that as it may, you now have the complete story—at least from my viewpoint. I trust it may prove useful to you and others in "doing what's right" . . . as I am confident you strive to do.

If I can be useful in any manner, just let me know.

Respectfully yours,

INWOOD SMITH, CLU,
Enrolled Agent.

STATEMENT OF ROBERT P. FLEMINGER, PRESIDENT, NATIONAL COUNCIL, SOCIAL SECURITY MANAGEMENT ASSOCIATIONS

The 4,000 Social Security managers and supervisors I represent are opposed to having the issue of whether new federal employees should be placed under Social Security decided in the Social Security reform legislation. Instead, we believe a separate bill should be introduced to address the need to cover Federal employees under Social Security and the need for changes in the Civil Service Retirement System (CSRS). We prefer this approach because:

1. The Social Security reform forum is not the one in which to address the needs of 2.5 million Federal employees and 1.4 million CSRS retirees. I have watched, on cable T.V., early testimony of National Commission members before the House ways and Means Committee. It has been clear there has been little thought given to how coverage of Federal employees will impact on the CSRS. I listened in dismay when Robert J. Myers provided a suggestion on a supplemental CSRS plan. It was very simplistic, flawed and self-admitted to have been hastily contrived. I am not faulting Mr. Myers, because he did sincerely express the need for a supplemental CSRS. He did the best he could on short notice, but I am fearful this is good evidence of how any issue over the coverage of Federal employees will be handled in the Social Security forum. The forum for dealing with the National Commission's recommendation has been and will be very emotional and derisive. We believe it is inappropriate to decide the fate of the CSRS in this setting. Our retirement system has been in place 63 years and deserves a forum sensitive to it's character and significance.

2. The stability and solvency of the CSRS will be immediately jeopardized by Social Security coverage of new Federal employees. We do not have confidence the will of Congress and the Administration is such to maintain the long term stability of a CSRS system without regular new entrants.

3. The Social Security reform legislative process will tend to perpetrate the myth that the CSRS is an overly generous retirement system. The major problem for growth in CSRS outlays has been the cost-of-living increases. These also caused the Social Security financing problem. The over generous cost-of-living increases to beneficiaries in the past ten years has strained both systems. Instead of placing the blame squarely on the COLA's, the solutions will be to make today's workers bear the major burden of reform by increasing taxes and reducing their future benefits. The Administration's proposals in the 1984 budget for changing the CSRS are a clear reflection of this trend.

4. Finally, and most important, a properly designed package of Social Security coverage and a supplemental CSRS may be to the advantage of all Federal workers. There are weaknesses in the CSRS (survivor benefits and spouse coverage) which might be strengthened under a combined system. A properly designed combined system may also be appealing to already employed Federal workers.

As a solution, I suggest the Social Security legislation should convey the intent of the final legislative decision on the coverage of Federal employees. This intent should be referred to the Senate Government Affairs Committee and the House Post Office and Civil Service Committee. These committees should then draft bill which would provide the proper forum for a decision on coverage of Federal employees under Social Security and possible changes in the CSRS.

Thank you for considering our position.

GAITHERSBURG, MD., *February 4, 1983.*

JOHN SALMON,
Chief Counsel, Committee on Ways and Means,
House Office Building, Washington, D.C.

DEAR MR. SALMON: I am presently employed in an organization which is exempt from contributing to the Social Security system. Because of this, the organization has enrolled me a sheltered annuity program which, in my opinion, is far superior to the federal system. On a daily basis, I can see my money working for me.

To be quite frank, I am strongly opposed to the new initiative which suggests that employees of non-profit organizations be required to contribute to the Social Security system.

In my humble opinion, contributing to the Social Security system is almost as bad as investing in Freddie Laker, Braniff and DeLorean.

I appreciate your registering my concern with those who will be making a decision on this matter. Thank you.

Sincerely,

RICHARD A. SOCKOL.

NEW YORK UNIVERSITY,
New York, N.Y., January 11, 1983.

COMMITTEE ON WAYS AND MEANS,
House of Representatives,
Washington, D.C.

LADIES AND GENTLEMEN: I should like to offer the comments that follow in lieu of personal testimony. They reflect my views and not necessarily the views of New York University.

COMMENTS

I and many others predicted that the OASI Trust fund would run into trouble in the 1980s, although like many others, I did not predict the extent of the shortfall. My general comments on revamping Social Security are contained in my book, "Social Security and Pensions in Transition" (Free Press, 1980) and my more particular comments are found in D. Salisbury, ed., "Retirement Income and the Economy" (Employee Benefit Research Institute, 1981).

Most of the proposals for reforming the financing of the system are well known, and all of them are painful in one way or another, although a return to an economy of high employment and vigorous economic growth would go a long way to relieve the pain. This last, however, is beyond the purview of the Subcommittee.

I wish to address myself to one narrow aspect of the currently fashionable reform proposals: the taxation of benefits. I believe this to be unfair and possibly unnecessary.

Workers whose average lifetime earnings have placed them within the range of maximum taxable earnings will be adversely effected (as will lower earning groups) depending on where the tax threshhold is placed. Such workers have paid progressive income taxes throughout their lives, and their total FICA tax payment increases each year so long as nominal wages rise. Their Social Security benefits are, however, also progressive, that is, they receive relatively lower benefits in accordance with the computation formula. The proposal, in effect, levies another progressive tax on them as they enter the non-earning period of their lives.

At this point in their lives they are engaged in a race to see which runs out first: their lives, or the value of their pensions and such other income from assets that they may have. Given the expectation of some rate of inflation greater than zero, the time span of the latter is reduced. At the margin, an increased number of aged people will sink into poverty before they receive their heavenly reward. In view of the longer life expectancy of women, most of these victims will be females. At the moment, poverty among the aged is concentrated among the very old, most of whom are females. A tax on benefits will speed up this process.

What will be done with the proceeds of the tax? If it is merely returned to the Treasury, there is no benefit to Social Security. If it is returned to the OASDI Trust Fund, it is of little use to this class of pencioners, since their pre-tax benefit levels depend on their earnings histories. Only if it is used to finance Medicare will there be some return to this group. Even so, their non-medical standards of living will decline.

I certainly believe in progressive taxation, but I also believe that the best time to tax people is either when they are in their prime working years, or when they have died and, having won the race, have left estates that can be taxed.

It is worth reminding the Committee that the replacement rate for median earnings (excluding dependents) will be about 40 percent. The rate for those who were consistently at the maximum will be about 27 percent. Assuming, for the sake of argument, a marginal tax rate of 33 percent, the latter figure will be reduced to 18 percent. At this point, participation in Social Security will have become a pointless exercise for the group in question, especially since a new indexing formula for benefits in payment is inevitable, and will give beneficiaries less protection against inflation than they now have.

The Reagan tax cut was too great. Recouping it from the aged, which is what the proposal will achieve, is poor social policy.

Sincerely yours,

BRUNO STEIN, *Professor of Economics.*

ARTICLE SUBMITTED BY ROBERT THEOBALD, PARTICIPATION PUBLISHERS, WICKENBURG, ARIZ.—"THE FAILURE OF THE SOCIAL SECURITY COMMISSION"

Robert Theobald has been concerned with income maintenance issues for almost two decades; he updates his ideas here. He has two recent books: "Avoiding 1984" and "Beyond Despair."

The title to this piece is designed to force a "double-take:" the normal reaction to the report of the Social Security Commission is that it was a miracle that they were able to come up with any agreed proposals at all.

Given the political realities of Washington this may be true but it is nevertheless the sort of miracle that we do not need. The harsh reality is that the Commission has dealt with the short-run problems in a way which can only aggravate the already intolerable situation predicted for the twenty-first century.

The current estimates are that there will be only two workers to support each retired person. Anybody who believes that such a pattern will be politically acceptable has simply not faced up to the dynamics of such a reality.

Thus, even if one accepts that the existing industrial-era trends will continue essentially unchanged for another 75 years, as the social security estimates do, they already result in impossible situations. But a clearer look shows just how badly we are still underestimating the emerging crisis.

It is now part of even the conventional wisdom that we are facing fundamental wrenching changes throughout the employment and economic system. Smoke-stack industries are declining dramatically, because workers are willing to accept far lower salaries in the poor countries than in the USA. The loss of jobs in these areas is certainly going to be huge and a large number of these workers will not be reemployed for they cannot learn the new skills required in a high-tech and service world.

Computers and robots will destroy many jobs in the next decades. When a computer can be installed for less than the cost of the minimum wage and a robot costs about 25 percent of the wage of a skilled worker, the results are inevitable. The only relevant question is the timing.

In addition, the economic growth rates which are built into social security calculations must now be challenged. More and more analysts are beginning to believe that the period from 1945–1970 will prove unique in human history. It was based on a back-log of demand, the opening up of the final large unused land and raw material resources, and the conviction, which is now dying, that decisions could be made without consideration of their impact on the environment.

Social security was originally designed primarily as a pension-scheme for the industrial-era with very limited disaster relief. It aimed to ensure that those who had worked for many years should not be left destitute at the end of their lives. Social security is successfully taking care of many of the people who have these needs.

The designers of social security would be appalled, however, if they could see the multi-humped camel which successive Congresses have created. First, social security has become a part of the redistributive process. Progressivity has, however, been introduced into social security by a trick: everybody pays the same tax rate regardless of income up to a given ceiling. As a result, those with low incomes pay more in social security than in taxes while the rich pay the lowest real rates.

Second, social security has been distorted to meet welfare needs which should have been paid out of general taxation. Making disability and medical payments from the social security bill looked painless until the bills fell due.

The barriers between social security and other taxes cannot endure. Indeed, the debate about our total taxing system cannot be resolved until we go back and ask the fundamental questions which have been buried in recent years:

First, what level of income are we prepared to provide to those who cannot earn for themselves and under what conditions? We need to confront the guaranteed income issue squarely.

Second, at the other end of the scale, what degree of progressivity should be built into the tax system: this issue becomes more urgent as the "flat tax" proposal moves toward reality.

Third, to what degree are we prepared to continue to redistribute income by government fiat to those who have more children, or suffer from ill-health or housing if they are not in real need? Or to put it more bluntly, under what circumstances should we employ a means test?

Fourth, and potentially most revolutionary, to what degree can individual needs really be met at the local level if the Federal Government would limit its taxation and free up individual resources.

The taxation and redistributive systems built into our existing social security and general tax system will not meet the needs of the eighties and nineties when we must avoid the emergency of a huge underclass and learn to balance economic growth against environmental damage.

Only a careful, honest, tough debate which breaks through the present cliche discussions can avoid the breakdown of both social security and our general tax system, now strained by growing Federal deficits. These are not two issues but one and their solution can only be found together by confronting the tough issues which the Social Security Commission chose to paper over.

STATEMENT OF UNITED NEIGHBORHOOD HOUSES OF NEW YORK, INC.

United Neighborhood Houses, the federation of settlement houses and neighborhood centers located in the low-income neighborhoods of New York City, appreciates the opportunity to present a formal statement to the House Committee on Ways and Means during its current deliberations over the financing problems of the social security system. While we acknowledge the pressures on Congress to approve the recommendations of the National Commission on Social Security Reform, we also hope that there will be a thorough examination of the impact of these proposals on the American people, especially those in greater economic and social need.

UNH has a deep interest in preserving and improving the Social Security system. In the early decades of this century, leaders of the settlement movement worked hard for the enactment of the Social Security Act. They and other social reformers believed that, in addition to voluntary efforts to assist the needy, there was also a public responsibility to provide general social insurance for the American people. Over the years, the settlement movement has applauded the expansion of the social security system and views with deep concern attempts to reduce its coverage and benefits. Unfortunately, during the past two years, serious cuts in social security benefits have been made.

Perhaps the most injurious change in social security benefits has been the elimination of the minimum benefit for new recipients. Instead of liberalizing the minimum benefit, as previous study commission had recommended, Congress eliminated it, effective January 1, 1982. Existing recipients were, however, spared, and Congress reversed its earlier decision to deny the minimum benefit to both current and future recipients. Studies of these recipients reveal that they are, for the most part, low-income individuals, many of whom are women, who have been outside of the paid labor force for long periods of time because of child-rearing and other family responsibilities. Other individuals in this category include day laborers and persons who have suffered extended periods of disability. When the Social Security Act was first passed in 1935, Congress established the basic right to a minimum benefit in the social security system. That this right has now been taken away is a serious violation of the basic system.

Further inroads into the basic benefit system of Social Security must cause us great concern. Representing low-income people of all age groups, many of whom depend entirely on social security benefits for their basic subsistence, UNH is deeply concerned about the impact on our constituents of the reductions in these benefits as well as the increases in payroll taxes which have been proposed by the National Commission on Social Security Reform. Increased taxes and reduced benefits account for $80 billion of the $168.7 billion in savings for the fiscal years 1983–89 which the National Commission is projecting. Unfortunately, both of these approaches to cutting the deficits in the social security system are regressive, having a bigger impact on low-income people than on the more affluent.

The National Commission has recommended accelerating the scheduled tax increases, bringing the rate up to 7 percent in 1984. The social security payroll tax, which applies a flat rate on all workers covered by the system, is already very high for workers at the lower end of the pay scale. Even at the current rate, this regressive tax results in having the majority of U.S. taxpayers pay more in social security taxes than they do in Federal income taxes, which are set at progressive rates. The proposed acceleration in scheduled tax increases will hurt low-income workers much more than the highly paid and is especially offensive in light of the decreases in Federal corporate and income taxes approved in 1981, which have given the most relief to the wealthiest taxpayers.

The National Commission's recommendation for a 6-month cancellation of cost-of-living increases in social security benefits and the rescheduling of the annual increases from July 1 to January 1 also represents inequitable social policy. Acknowledging that the poorest recipients of social security benefits might be pushed below—or further below—the poverty line, the Commission has recommended increasing from $20 to $50 the amount of social security benefits which can be disregarded in calculating payments under the Supplemental Security Income Program. The Commission clearly expects that many social security recipients will need supplementary public assistance if its proposals are enacted.

Cutting the social security benefits of low-income people places greater strains not only on the affected individuals but also on the State and local jurisdictions where they reside. Last year the New York State Governor's Task Force on Social Security studied the impact of cuts in social security benefits and found that there would be sizable new costs to the State and to local governments in their contributions to the SSI, Medicaid, Aid to Families with Dependent Children, and Home Relief Programs. The city of New York has now calculated that the delays in cost-of-living adjustments and other cuts proposed by the National Commission will result in additional costs to New York City of approximately $40 million in Medicaid and public assistance. Reduced social security benefits lead to additional costs for the private sector, too. The Governor's task force pointed out that lowered social security benefit levels would mean higher costs in private pension plans because these plans are often closely tied to the social security system. Social security benefits, which are supposed to enable recipients to maintain a decent standard of living, have clearly become a very important portion of personal incomes in all of the States.

When Congress decided in 1972 to provide automatic cost-of-living increases in social security benefits, it established a mechanism to maintain decent standards of living by protecting the purchasing power of beneficiaries against the encroachment of inflation. That the percentage of older Americans below the poverty line was reduced from 25 percent in 1970 to 16 percent in 1980 is, in large part, the result of a social security system which was changed to keep up with inflation. The cost-of-living adjustment is not, however, without flaws. Critics point out that the Consumer Price Index, which is the standard employed in calculating social security benefit increases, is not an accurate measure of the real impact of inflation on the household budgets of the elderly and other low-income recipients. Another criticism is that there is a significant delay in applying the benefit increases, which are scheduled for July 1 of each year, based on price and wage data from the first quarter of the current year compared with the first quarter of the previous year. An additional delay in benefit increases, as proposed by the National Commission, would widen the flaw in the indexing mechanism.

UNH is confident that the Committee on Ways and Means shares our concerns about the impact of the recommendations of the National Commission on the people in greatest economic and social need. For many millions of the elderly, the disabled, the young, and widowed parents of young children, social security benefits are the mainstay of their existence. Because of the impending shortfall in the social security trust funds, the pressure to approve the recommendations of the National Commission is very strong. After Congress acts on the current financing problems of the social security system, we hope that there will be subsequent action in other areas which will be of direct benefit to low-income people. Too many of the "reforms" approved by Congress in recent years have hurt those who could lease afford it.

STATEMENT OF CHARLES DUNHAM, PRESIDENT, VACUUM DEALERS TRADE ASSOCIATION

Mr. Chairman: The Vacuum Dealers Trade Association is the national organization of 21,140 independent vacuum dealers located throughout our country. Our members are the small businessmen and independent contractors who have increasingly been called upon to support the social security system in this time of financial crisis. In testifying before the committee, we have two priority objectives: (1) to demonstrate our support for strengthening the social security system not only so that we can be confident in its financial viability when we retire, but so that our children will not have to bear the costs for our lack of courage in dealing with its problems today; and (2) to make sure that you fully understand the unfairness of imposing higher and higher FICA taxes if you refuse to make the more difficult decisions on benefits and adjustments.

In reviewing the agreement developed by the National Commission on Social Security Reform, it is our observation that pressures for change are aimed principally at the Commission's benefit reduction recommendations and far too little attention has been given to the businesses that have been asked to pay more and sacrifice still further. Our own members bear a disproportionate share of this new burden. Our businesses are extremely labor-intensive. Our profits came from individual effort and our costs come substantially in the form of salaries and commissions. It is on this basis alone that FICA is computed. At a time too when our economy is suffering the effects of a long, arduous recession, you should remember that small business is suffering the brunt of these hard-times. Any tendency to cave in to a vocal, well-organized lobby or to a few who see political opportunity in increasingly benefits must be greeted with a stern warning that we expect fairness from your committee. In holding the package together or in finding the additional revenues needed to meet the shortfall in the Commission's recommendations, we urge you to look past the easy targets to the tough decisions.

VDTA also is not convinced that the Commission's recommendations offer much more than short-term solutions to the funding problem. We join a great many others in urging you to look beyond the Commission's offerings to other, long-range approaches. A piecemeal approach to resolving the social security dilemma will subject all of us—businessmen, retirees and you in Congress—to years and years of periodic repair at the mercy of whatever political winds happen to be prevailing at the time. We therefore urgently call on you to deal with financing now, although not necessarily as part of this legislation.

VDTA thanks the committee for this opportunity to testify and assures its support for decisions that both are reached fairly and are aimed at resolving this financial crisis now and for the future.

STATEMENT OF WILLIAM J. VLAHOV, D.D.S., SILVER SPRING, MD.

I urge the House to make a study of the consequences of the higher contribution social security enrollees make to the general revenues. It is an indirect tax where the participant pays a higher tax on received compensation. It is not the same principle as applied to I.R.A.'s. The contributions to social security and the resultant tax credit that is due has, can and will fund the responsibilities it has undertaken. The system is sound and healthy. Credit from general revenues must be applied and not disregarded. It is unbelievable that no one on the joint commission recognized this omission in the rush to consensus. All taxes, and social security must be recognized as one, deserve equivalent scrutiny. Social security pays its way and no apologies have to be made for it.

I illustrate my premise of the resultant increase in general revenues from the tax tables found on page 38 of the tax form 1040 (the principle can be tested on any level).

For a single taxpayer making $35,000 the tax is $9,217 instead of $8,302 if the social security tax were credited—a difference of $915 which is the contribution to general revenues—an equivalent I.R.A. income is taxed only at $8,302. No wonder I.R.A.'s look so good; and paychecks look so small for the social security enrollee.

Let me further note that every worker contributes 6.7 percent of the first dollar earned. Even those of minimal and poverty level pay this tax. An equivalent amount is "matched" by an employer. This is not an out of the pocket expense for the employer but is a cost of doing business and is added to the resultant cost. The enrollee is therefore paying a 13.4 percent tax today. The general revenue credit added to this rate is in the order of $50 billion!! (My estimate is based on a $500 credit contribution for 100 million enrollees, paid quarterly and compounded also with state contributions affected.)

Tax credits should be applied to those presently enrolled and taxed when received as income.

Present benefits and coverages should be continued from general revenues by their past funding through general revenues.

A new tax rate or deferral of the present "10-percent tax cut" is in order to develop solvency.

I hope there are some of you with the courage to recognize and fight for the principle that general revenues generated by social security should be placed back into the system, and will reject the recommendations of the joint commission.

WESTERN GERONTOLOGICAL SOCIETY,
San Francisco, Calif., February 3, 1983.

Hon. J. J. PICKLE,
Chair, Subcommittee on Social Security,
Washington, D.C.

DEAR CONGRESSMAN PICKLE: The Western Gerontological Society (WGS) supports the total package of social security reforms as presented by the Social Security Commission.

We believe it is a constructive solution to the major financial difficulties that the social security system is confronting, if it is accepted in its entirety. We commend both the Republicans and the Democrats for consistent efforts.

The reforms are reasonable and the solutions fit together well, in totality. Although WGS does not necessarily agree with all of the provisions, we will continue to support it strongly so long as they remain part of a package. If the compromise is not supported in its entirety, WGS will approve or support the provisions point by point. Hopefully, this will not become an issue.

We do wish to raise one more issue. Although we will reluctantly support the delay in COLA for purposes of protecting the social security compromise, we will be strongly and actively opposed to any similar delays in other programs such as SSI. The compounding effects of the delayed COLA will be bad enough for lower income elderly. They cannot be expected to bear the effects of even further cuts in programs that help maintain their basic standard of living.

Once again, we'd like to commend the social security reforms package. We will assist in any way we can to assure its passage.

Cordially,

CARROLL L. ESTES, Ph. D.,
President, WGS Board.

STATEMENT OF ELIZABETH WICKENDEN, CONSULTANT ON SOCIAL POLICY, NEW YORK, N.Y.

My name is Elizabeth Wickenden and I appear in my personal capacity as a long-time student and supporter of the social security system. For purposes of identification I am currently Director of the Study Group on Social Security, an information service that monitors, analyzes and interprets current developments affecting the program. I also teach at Fordham University Graduate School of Social Service. My address is 544 East 86th Street, New York, N.Y. 10028.

The compromise proposals reached by The National Commission on Social Security Reform, like all compromises are bound to please no one in all respects. In any case I find it hard to accept the six months delay in the COLA which can work a great hardship on many present and near-term future beneficiaries, especially if the inflation rate is not contained to the extent the Administration now predicts. Nevertheless I feel this is infinitely preferable to the alternative, a reduction in the basic benefit rate which would cripple the system on a permanent basis. On the whole, I find that the Commission is to be congratulated on a set of proposals that is more than adquate to meet the temporary shortfall of the next 6 or 7 years and most of the long-term needs of the system, while leaving its organic structure undamaged.

I would like to center my few remarks on the presumed long-term problem of the system which is anticipated to begin about 2015 when the ratio of the workers paying into the system is expected to be low, largely for demographic reasons, compared to those entitled to draw benefits. The Commission proposals reduce even this problem to an actuarial level of .58 of payroll, well below the 5 percent level traditionally considered tolerable over a 75-year period. Nevertheless the Commission members make two alternative additional proposals for this period: some favoring a delay in the age of retirement proportionate to anticipated longevity and others an infusion of additional revenue into the system—if needed—either through a small increase in the payroll tax (offset by a tax credit) or from general revenue.

I would like to make a few points about the nature of the system that argue against the need for any action in this respect at this time beyond that contained in the basic compromise.

First, the primary determinant of the amount available for social security is the size of the gross national product (rather than the Federal budget) and the percent of that amount the country wants to allocate to those no longer working.

Second, no matter how it is done those working must obviously produce not only for themselves but also for the non-workers.

Third, the method of making the transfer from workers to non-workers has varied over time and cultural periods. Even in the Neanderthal times the number of fossilized skeletons showing arthritic damage is evidence that those no longer able to hunt shared the common cave and the common pot. In our own industrial society the normal basic instrument of transfer is money.

Fourth, social insurance has proved to be the method most consistent with our ethos and hence the most acceptable. As a deferred return of earnings, it is acceptable both to the beneficiary and the taxpayer because it is consistent with the work ethic. It also encourages savings, home ownership and accumulation of other assets by its absence of a means test. We have had enough experience with the humiliations of a means test to know the difference.

Fifth, the percentage of the GNP going to social security is now around 5 percent. In this respect we are well behind most other industrial nations.

Sixth, the Federal Government is simply the agent of this transfer, in a largely self-financing system. As a majority of the Commission recommends, we should remove social security from the Unified Federal budget in order to clarify this role.

Seventh, fairness between generations, whatever the size and distribution of the GNP, is absolutely basic to an effective social security system. The present work force cannot be expected to pay the price of benefits received by present retirees while confronted with a reduction in benefits when their own turn comes. This is true whether the benefit reduction derives from a later age requirement or a modification in the basic formula by which benefits are calculated.

Eighth, it is virtually impossible to determine the GNP of the country in the next century and the competing claims that will be made against it. The size of the GNP will depend largely on continuing the kind of advance in scientific knowledge and engineering ingenuity that has been the hallmark of our past progress. The distribution of GNP depends on our way of life, our scale of values, and our ability to achieve a peaceable world without the vast military expenditures that now overwhelm us. Pessimists may see the future in a dark light but I have faith that our ability to solve these problems has not passed into history. I believe that we will have the resources and ingenuity to adapt our policies to maintain and even improve our present social security system when that time comes.

MUNCIE, IND., *February 2, 1983.*

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR MR. SALMON: I understand you will soon conduct hearings on the financing problems of the Social Security System. I am Director of Employee Relations for a large corporation. In this capacity I have regular contact with employees and am aware of many of their retirement needs. The report of the National Commission on Social Security Reform seems to provide temporary financial relief, but it evades the long-term resolution of the problem. My observation is that our citizens are more sophisticated financially than twenty years ago and are expecting a program of greater substance than the revisions proposed. I am of the opinion that we are now ready for a new generation of retirement alternatives which might include the following:

Development of massive trust funds similar to Individual Retirement Accounts (IRA) or Keogh Plan accounts.

Mandatory deposits for all citizens using existing procedures and schedules.

Exempt deposits from taxes until retirement.

Increase the annual limit on IRA's to $5,000 or more.

Allow for additional retirement vehicles with tax preferences.

By setting a course away from a federal pay-as-you-go retirement program, we can relieve the expanding tax burden, provide greater retirement benefits at no cost to the tax payer and create a reservoir of capital needed for expansion and renewal. I urge careful consideration of the creation of private trust funds to provide long-term relief and replacement of the Social Security System.

Sincerely,

C. E. WILD.

WOODMEN ACCIDENT AND LIFE CO.
Lincoln, Nebr., January 25, 1983.

Hon. DAN ROSTENKOWSKI,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: The press has given full and presumably accurate coverage to the soon to be released report of the National Commission for Social Security Reform. There have been some expressions of gratification that the Commission was able to agree on the probable magnitude of the short fall in Social Security revenues during the balance of this decade. To shore up the system temporarily, a majority of the Commission agreed to recommend a six-month postponement of the cost of living increase scheduled for 1 July 1983, subject to income tax one-half of their benefits for some recipients, accelerate imposition of tax increases already enacted for 1985 and 1990, require the self-employed to pay the full amount of both employer and employee tax, and mandate Social Security coverage for new employees of the federal government and nonprofit organizations. While views may differ as to the merits of some or all of these proposals, their heavy reliance on increased taxation and their failure to address the primary causes of the system's problems are dismaying.

It is greatly to be regretted, in view of prevailing circumstances which demand and should facilitate other and more significant reforms, that the Commission has not agreed to them. I refer specifically to the needed increase in the normal retirement age for receipt of Social Security benefits by persons becoming eligible therefor in the future. For the first time in the history of the system, there is widespread alarm at its precarious condition and conviction among informed people that prompt, decisive action is needed in order to preserve the system.

I enclose a copy of a lecture delivered by Robert A. Beck, Chairman and Chief Executive Officer of the Prudential Insurance Company of America, a member of the National Commission, such lecture having been given at the University of Nebraska last fall under the aegis of Woodmen Accident and Life Company and the University. Mr. Beck's subject was "Social Security . . . The Need for Action." I think that you will find Mr. Beck's observations and recommendations not only pertinent but persuasive.

As I am sure you are aware, the problems of our Social Security System derive not from inadequate taxation for its support but chronic, repetitive and insupportable overpromising of benefits. At a time when government siphons off too large a share of Gross National Product in taxes, it is unfortunate in the extreme that the burden of Social Security would be increased by the National Commission's tax recommendations. The best interests of the country are not served by emphasizing increased taxation as a solution to the ills of Social Security. Rather, as Mr. Beck brings out so clearly in his lecture, the Social Security crisis can be averted by appropriate adjustment in future benefits.

In the atmosphere of alarm that prevails today, the too-long held notion that it is tantamount to political suicide to reform Social Security no longer has validity. That notion is pejorative of the intelligence of the aged and disabled and overemphasizes their cupidity. When honestly explained to them, they will support sound reform because:

(1) They badly need and want good reasons to believe that they will continue to receive their benefits. They must be assured that reform need only correct the overgenerous promises made in the past and that current benefits will not be reduced.

(2) They do not wish the payment of Social Security taxes to become an ever heavier burden on their children and grandchildren.

(3) They know, in increasing numbers, that as the cost of government continues to rise (importantly because of social benefit programs), the economy is stifled, inflation rekindled, and their standard of living declines.

(4) They know that the long-range viability of Social Secruity depends on the continued ability and willingness of those in the labor force and their employers to pay the taxes that provide the intergenerational transfer payments that are Social Security benefits. Only by restoring the long-range soundness of the system can its support by the taxpayer be reestablished and the fear of current workers abated that by the time they reach retirement the system will have collapsed.

Lest the legislation that will be enacted subsequent to the report of the National Commission be simply another palliative, I strongly urge you and others in positions of public responsibility and influence to see clearly that all of us including Social Security beneficiaries are harmed, not helped, by a continuation of overgenerous subsidy. We should mount and carry to success a determined effort to have the normal ages of benefit entitlement gradually but substantially escalated to bring those ages into a more rational relationship to the complexion of the population, the lengthening life span, and the needs of the economy and the government. This may be the last best chance to save the Social Security System as it was designed to be and as it has been "sold" to the American people.

Sincerely yours,

E. J. FAULKNER,
(Member of the 1974 Advisory Council on Social Security).

Enclosure.

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